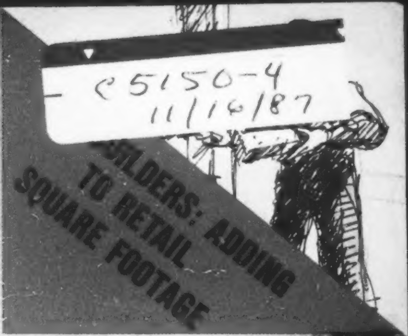
Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

November 1987



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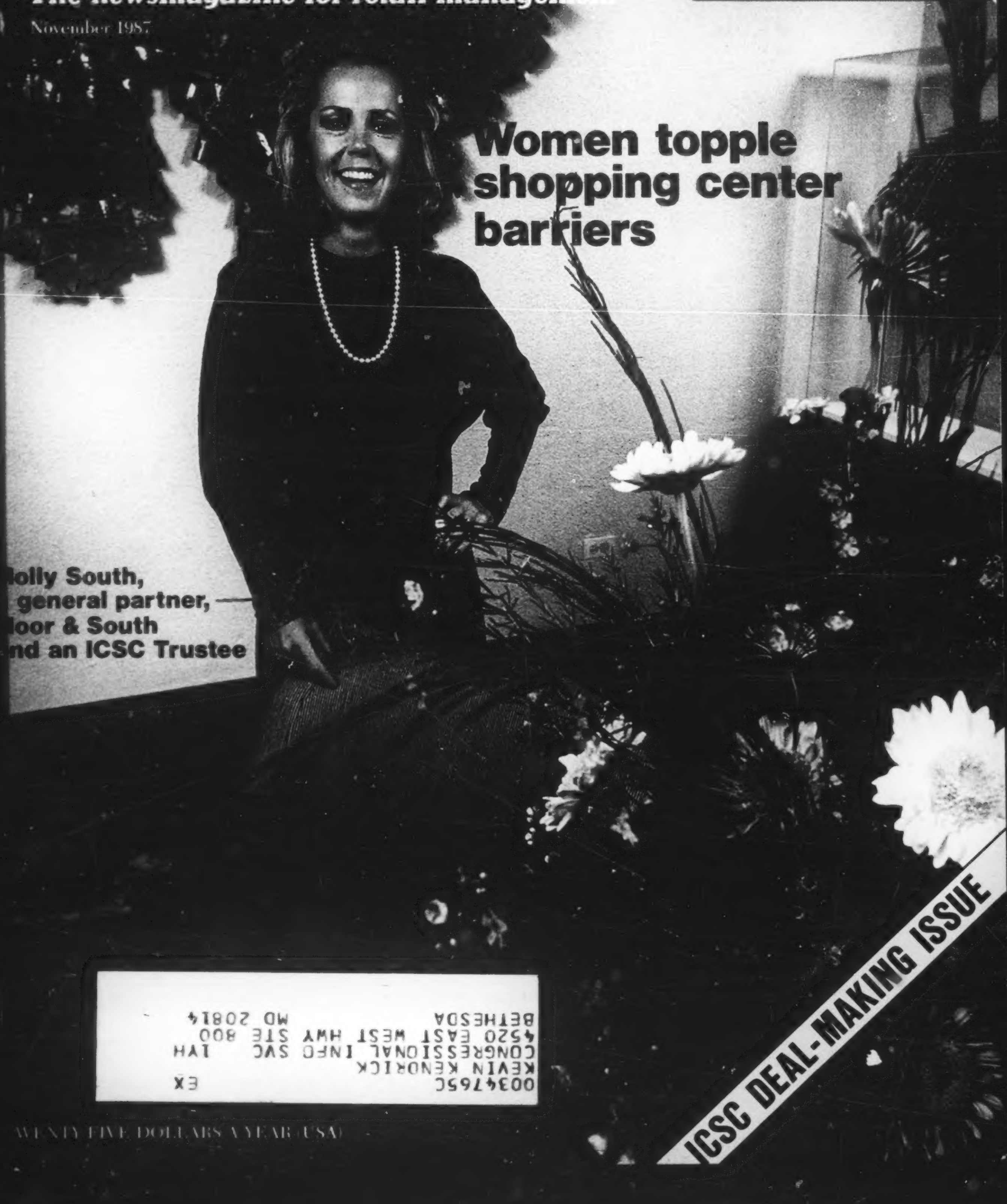
UILDERS: ADDING TO RETAIL SQUARE FOOTAGE



Women topple shopping center barriers

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FROM THE EDITOR'S DESK

WATCHING THE DRAMA UNFOLD

While attending the recent National Retail Merchants Association's Retail Information Systems Conference, I had a chance to visit with Jack Brill of IBM. We discussed changes taking place in retailing—what Brill described as "a quiet drama." I like that description.

Aside from a few major news stories such as the Haft family's ongoing (at least as of presstime) attempts to take over Dayton Hudson, much of what is happening isn't headline-grabbing. But taken collectively, these occurrences have the power and the potential to greatly impact the retail industry of the future.

For example, there are remarkable computer-aided design systems now on the market. These enable the buyer and apparel manufacturer, located thousands of miles from one another, to work in tandem on designing the next apparel items to be shipped to the stores. From the retailers' point of view, the use of such systems may eventually enable stores to respond with far greater speed to the moment's fashion and fads.

At the same time, and again utilizing computer power, there are systems available that allow retailers to know more than ever before about the attitudes and lifestyles of their customers. For example, the market research firm Prizm has devised a methodology for dividing any market into as many as 32 sub-sectors, each identified by a catchy name. And each also characterized by exact information on the people found in each.

It's not just technology, though, that's playing a role in this drama. It's also the younger and younger executives who are moving into the top spots at many U.S. retail companies. They aren't as hemmed in by tradition as were many of their predecessors. Greater innovation and creativity, not only in the executive suite, but throughout their organizations should be one of the results.

Many of these large retailing conglomerates are moving into new areas: Sears, Roebuck, J. C. Penney and R. H. Macy all recently embarked on their individual forays into specialty retailing. Other companies, such as The Gap (with Hemisphere) are launching new ventures they believe have great growth potential.

Then there are the major advances taking place in food packaging, innovations being made in customer service, and a whole host of experiments taking place with electronic forms of shopping in the home and on the selling floor. The list could go on and on.

A quiet drama? Yes. But a suspenseful one as well.

—**Jacquelyn Bivins**

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SHOPPING CENTER INDUSTRY LOOKS TO MAKE NEW DEALS

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BIG BUILDERS 1987

TOP 25 RETAILERS SPEND $7.4 BILLION TO GAIN GROUND IN MARKET SHARE WAR

The construction of new stores and the expansion and/or remodeling of older ones are important weapons in the battle retailers are waging to up market share.

That's why, taken collectively, before year-end the nation's top 25 retail builders (as ranked by *Chain Store Age Executive* research) are planning to increase their gross square footage by a total of approximately 666,063,980 sq. ft.

Such construction is expected to account for the lion's share of the capital expenditures budgets of this group which, expected to total approximately $7.4 billion. However, also included in this figure are the hefty investments many companies are making in more sophisticated management information systems and in modernization and/or expansion of their distribution facilities. These, too, they view as powerful competitive weapons.

Take, for example, the plans of Wal-Mart which is out in front as the industry's largest Big Builder with a projected 11.7 million sq. ft. of space to be added before year-end. This means that Wal-Mart will be significantly increasing the already substantial market strength of its Wal-Mart discount stores. It will also be further expanding the presence of Sam's Wholesale Clubs.

In addition, Wal-Mart is about to debut the first two Wal-Mart Super Centers in a joint venture with Dallas-based Cullum Cos. Each of these will be approximately 225,000 sq. ft. in size.

These combination food and general merchandise stores are Wal-Mart's (and Cullum's) American adaptations of the popular European hypermarkets (Troy, Mich.-based K mart and Birmingham, Ala.-based Bruno's have also announced plans for a similar joint venture). Independently of Cullum, Wal-Mart also has announced plans to open two additional Super Centers scaled down slightly to 150,000 sq. ft. each.

However, in addition to the Super Centers, other details of Wal-Mart's 1987 construction plans (for its fiscal year ending Jan. 31, 1988) include the following:

- a total of 125 new Wal-Mart stores
- 20 new Sam's Wholesale Clubs
- six dot's (Wal-Mart's entry into deep discount drug store retailing)
- the expansion or relocation of 55 older Wal-Mart stores.

According to company officials, this will mark the fifth consecutive year that the company has increased its retail space by more than 20%.

This is also being accomplished by the company at a relatively low cost. Wal-Mart's 1987 capital expenditures are forecast to be approximately $403.7 million. This, in turn, means that the company holds the No. 5 spot in the Top 25 Big Builders rankings based on 1987 capital expenditures. This also means that the company's cost per square foot are approximately $34.50 (admittedly not adjusted for the fact that some of Wal-Mart's construction activity involves remodeling, not new construction).

In comparison, St. Louis-based May Department Stores, tied with Troy, Mich.-based K mart for the No. 2 spot in the capital expenditures roster with a budget of approximately $600 million, is adding an estimated 2.99 million sq. ft. of space this year. (Dayton Hudson is No. 1 in capital expenditures budgets with an estimated $800 million.) Consequently, the obviously higher cost per square foot for new construction reflects in part the far greater expenses involved in opening department stores and specialty stores.

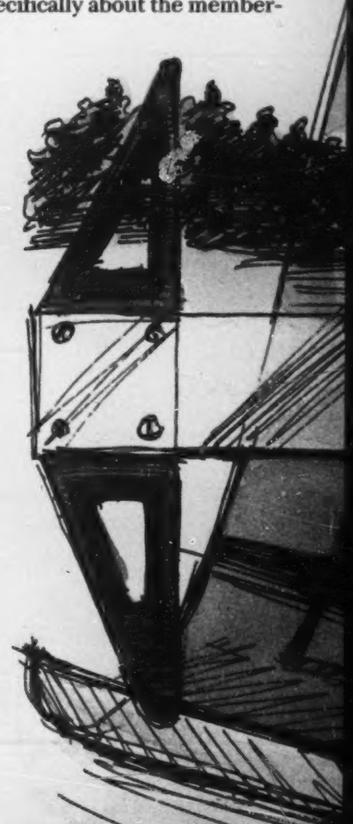
Chain Store Age Executive research indicates that the average cost per square foot for constructing a department store last year was $40.50 and $28.10 for an apparel specialty store. This compares with $27.20 for a discount store (the question was not asked specifically about the member-

Capital expenditures

	1987 (000)	1986 (000)
1. Dayton Hudson	$800,000	$1,068,000[1]
2. May Department Stores	600,000[2]	472,000
3. K mart	600,000	552,000
4. Federated Dept. Stores	500,000	515,000
5. Kroger	450,000	475,000
6. Wal-Mart	404,000	351,000
7. American Stores	400,000	195,000
8. Sears, Roebuck	355,000	380,000
9. J. C. Penney	350,000	348,000
10. Albertsons	260,000	139,000
11. Dillard's	255,000	182,000
12. F. W. Woolworth	250,000	202,000
13. The Limited	245,000	197,000
14. Supermarkets General	220,000	159,000
15. Publix	210,000[3]	166,000
16. Zayre	200,000	185,000
17. Toys "R" Us	200,000	200,000
18. U.S. Shoe	165,000	148,000
19. Winn-Dixie	161,000	179,000
20. A&P	150,000	115,000
21. Stop & Shop	150,000	136,000
22. Walgreens	130,000	155,000
23. Melville	121,000	116,000
24. Lucky Stores	100,000	273,000
25. Pace	100,000	110,000

[1] Includes $146 million in new operating leases
[2] Includes $100 million capital value of new operating leases
[3] estimate

Source: Company reports, estimates and Chain Store Age Executive research



ship warehouse format).

May Department Stores itself reported in its latest annual report (for the fiscal year ended Jan. 31, 1987) that last year it spent $338 million in capital expenditures for its department stores (including a number of remodelings). It spent $64 million on its two specialty store divisions (Volume Shoe and Loehmann's) and $69 million on its discount stores (Venture and Caldor). An additional $29 million was spent for corporate purposes and $4 million for real estate, bringing last year's budget to a total of $503 million.

This year the corporation's plans call for 11 department stores, eight discount stores and approximately 240 specialty stores. In addition, May is investing in the remodeling and/or expansion of more than 40 of its stores (but has not specified which ones).

A company that appears to be devoting an even greater percentage of its capital expenditures to remodeling is Cincinnati-based Federated Department Stores. Although it ranks fourth in terms of capital expenditures with a budget of approximately $500 million, its money is being spent to add only an estimated 570,000 sq. ft. of space (keeping Federated off last year's list of Big Builders ranked by gross square footage).

Instead, according to the company's annual report, this money is being invested in remodeling and remerchandising its various divisions, especially its department stores. Steps are also being taken to remodel and reconfigure the space in all 76 of Federated's Gold Circle units over the next few years.

Specifically, since its decision to consolidate the Richway and Gold Circle operations, Federated is making sure that its message of everyday low pricing gets through to Gold Circle's customers; it is also trying to convey the message that there are now more fashion goods included in the chain's apparel and home goods merchandise offerings.

Federated's Ralphs supermarket operations are also the recipient of some of its capital investment dollars; in 1986 Federated invested substantial dollars in opening a number of new Ralphs stores.

This year, though, Federated's new store growth is coming in what it terms its "growth vehicles." These are its Children's Place division (and its offshoot Accessory Place which will be opening a number of new stores before year-end) and Main-Street, with five new stores on tap for this year.

It's Dayton Hudson, though, that even better exemplifies how a company can make use of capital expenditures dollars to rapidly expand what it views as its major growth vehicles. Not only is the Minneapolis-based company the industry's biggest 1987 spender with its $800 million budget, but it is adding over 9.5 million sq. ft. of space (putting it at the No. 2 spot in terms of gross square footage). All of the company's new store openings this year will reflect the company's willingness to invest in what it views as high-growth opportunities.

Specifically, much of the current year's budget is being spent for the following: the opening of 50 Target stores as a result of real estate sites the company acquired last year from Gemco (including the remodeling of some of these units into the Target format); the opening of an additional 24 Target units; the opening of 24 Mervyn's, including the chain's first stores in Michigan; and six new Lechmere stores.

Other changes in these businesses include, at Target, the extension of its private label merchandise program to include hardline products such as stationery and home furnishings. The stores will also feature more merchandise geared at the children's market. In addition, a hefty investment is being made in installing scanning systems at more than 90 Target stores, joining the 20 units which already had this system in place.

At Mervyn's, Dayton Hudson's strategic moves include greater focus on quality control for its private label merchandise, a move to narrower merchandise assortments, a new television advertising campaign and the development of a new store prototype with improvements in merchandise layouts, aisle patterns and department adjacencies and size. Mervyn's is also testing a magnetic stripe-reading system that automatically reads the information on credit cards, and is beginning to test the implementation of scanning systems for its stores.

However, Dayton Hudson isn't ignoring its department store business, Dayton Hudson Department Stores, either. Major remodeling programs for 10 Hudson's stores and three Dayton's stores have also been undertaken this year. And, the department store management team is continuing to work hard to improve all aspects of customer service.

What all these companies illustrate is that when it comes to planning additions to selling space and setting those capital expenditures budgets, every single dollar is important in fighting to stay always one step ahead of the competition. ■

Gross square footage added

	1987	1986
1. Wal-Mart	11,700,000	11,926,000
2. Dayton Hudson	9,534,400	4,580,000
3. K mart	7,819,000	8,944,000
4. Zayre	4,650,000*	3,499,000*
5. J.C. Penney	3,448,500	2,884,750
6. Kroger	3,250,000*	(697,000)
7. May Department Stores	2,965,000	1,686,000
8. Toys "R" Us	2,175,000*	1,575,000
9. Melville	2,057,500*	1,979,000*
10. Winn-Dixie	1,700,000*	3,300,000
11. Hechinger	1,400,000	848,000
12. Albertsons	1,378,080	1,000,000
13. Ames	1,377,000*	867,000*
14. U.S. Shoe	1,362,000	914,700
15. F. W. Woolworth	1,306,000	(23,000)
16. Publix	1,200,000*	N/A
17. Hills	1,200,000*	880,000*
18. Stop & Shop	1,155,000	680,000
19. The Limited	1,125,000	N/A
20. Walgreens	930,000	948,600
21. American Stores	985,000*	1,600,000
22. Pace	900,000	900,000
23. Supermarkets General	846,500	555,000
24. Circuit City	805,000	595,000
25. Home Depot	775,000	339,000

*estimate ( ) loss

Source: Company reports and *Chain Store Age Executive* research

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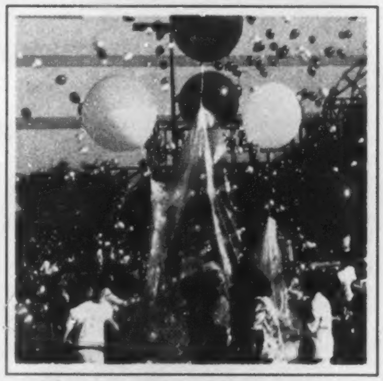
SHOPPING CENTER AGE



IT'S OPENING DAY AT LAST: THE BIG EVENT HAS ARRIVED

After a lengthy gestation period, the mall is finally ready to open. Cooperation between developers and retailers can certainly help to get the message out and the retailers in. This means, though, that the communication process has to begin well before the doors are opened. *23*

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FROM THE EDITOR'S DESK

REACHING PEOPLE ONE BY ONE

So many times these days we hear retailers (and shopping center developers) talking about the topic of "marketing." What I can't help but wonder, though, is whether most of them aren't just paying lip service to the concept.

I was vividly reminded of what "marketing" is really all about at the International Council of Shopping Centers' recent MAXI awards presentation ceremony. (The prestigious MAXI awards honor excellence in shopping center marketing in a variety of categories.)

Not only was I wowed by the creativity inherent in the winning entries (it's a fortunate retailer who finds himself with stores in any of these winning centers), but I was startled by the simple observation made by one of the recipients. "The goal of marketing is to touch people one by one," she said. That statement is simplicity itself. Why then is that goal so difficult to achieve?

I think part of the problem is rooted in the fact that many retailers don't even know who those people are. Or, to phrase this in marketing vernacular, they lack a clear view of their target customers. This may be because they fail to use all of the market research tools available to them. Or it may be because they delude themselves about who they are attracting to their stores.

For example, they may think that their stores are attracting the 25 to 40 year old career woman. In truth, their merchandise assortments and their overall store ambience may be much more attractive to a teenage girl looking for faddish merchandise than to a somewhat older, more affluent customer looking to make a long-term investment in her wardrobe.

Perhaps what the entire marketing process should begin with is the corporate mission statement. This, too, is a simple idea: management putting down in words who the company is, including what it is selling and who it hopes will buy its products. I suspect, though, that there are still many, many companies who haven't even taken this first step. It's no wonder, then, that many of them aren't communicating the right message—they don't even know what that message should be.

There are, however, many retailers who manage to do exactly what the MAXI recipient suggested. They manage to reach out and touch people—the very people who will want to shop in their stores. Their ability and their creativity are what *Chain Store Age Executive* is honoring with this annual full-issue study of Retail Advertising and Promotion. It is hoped that others will learn from their success.

—Jacquelyn Bivins

NEW STORE COMPETITION DRIVES AD BUDGETS

CHAIN STORE AGE EXECUTIVE SURVEY SEES 1988 EXPENDITURES AT $7.6 MILLION

How much has the average retailer spent this year to reach its target customers? The answer is approximately $7.3 million in 1987—at least according to the participants in a recent research study conducted by *Chain Store Age Executive*. This study sought to examine consumer advertising and promotion expenditure patterns among various classes of retail trade.

This year's expenditures are up significantly from the average of $6.5 million spent per company in 1986 by the survey participants; expenditures are projected to rise to an average of $7.6 million in 1988.

There are, however, major variations in the size of advertising and promotion budgets when the results of the survey are examined by retail categories. Department stores are clearly outspending other retailers. In 1986 department stores participating in this survey spent on average $14.6 million on advertising; this year that number has risen to $15.2 million. Budgets are expected to be fattened even further next year, up to $15.7 million.

(It should be noted, though, that department stores are picking up much of these costs through their extensive use of co-op advertising allowances.)

Second to department stores are supermarkets. Having spent on average $9.6 million on advertising in 1986, this year the survey respondents report they are hitting the $10 million mark. Next year they expect to spend even more: $10.4 million.

Following well behind these spenders are the discounters surveyed. They spent $6.2 million last year, expect to have spent on average $6.5 million this year, and will up their budgets only slightly next year to $6.7 million.

Home centers, too, are in general increasing their budgets, but at an equally slow rate of growth. Those chains surveyed in this group report that they spent $4.6 million in 1986, have spent $4.9 million in 1987, and will spend $5.2 million in 1988.

Drug chains surveyed spent an average of $3.9 million in 1986, will spend $4 million this year, and expect to spend $4.2 million in 1988. Apparel specialty retailers spent an average of $2.9 million in 1986, expect to have spent $3.2 million before the end of this year, and are projecting 1988 advertising budgets of $3.4 million.

Apparel chains are the second highest retail category in terms of the percentages of sales they are devoting to advertising. In 1986 the apparel chains participating in this survey spent an average of 2.9% of sales for these budgets, upping this slightly to 3% in 1987 and expecting to further boost this to 3.1% in 1988.

The per company percentages for the other retailers surveyed in each category are as follows:

- Department stores: 3.5% in 1986, unchanged this year, projected to decline to 3.2% in 1988;
- Discount stores: 2.8% in 1986, same in 1987, and 2.6% next year;
- Drug chains: 1.9% last year, 2.0% this year, and the same level projected for 1988;
- Home centers: 2.4% in 1986, 2.3% this year and expected to remain at the same relative level next year;
- Supermarkets: 1.8% of sales in 1986 (recognizing these are generally the largest dollar volume retailers), 1.9% this year and expected to remain at the same level next year.

Examining the advertising expenditures by these chains in a somewhat different way, 64% of the retailers surveyed said that they spent more on consumer advertising this year than they did in 1986; the average increase in dollars spent was 8%.

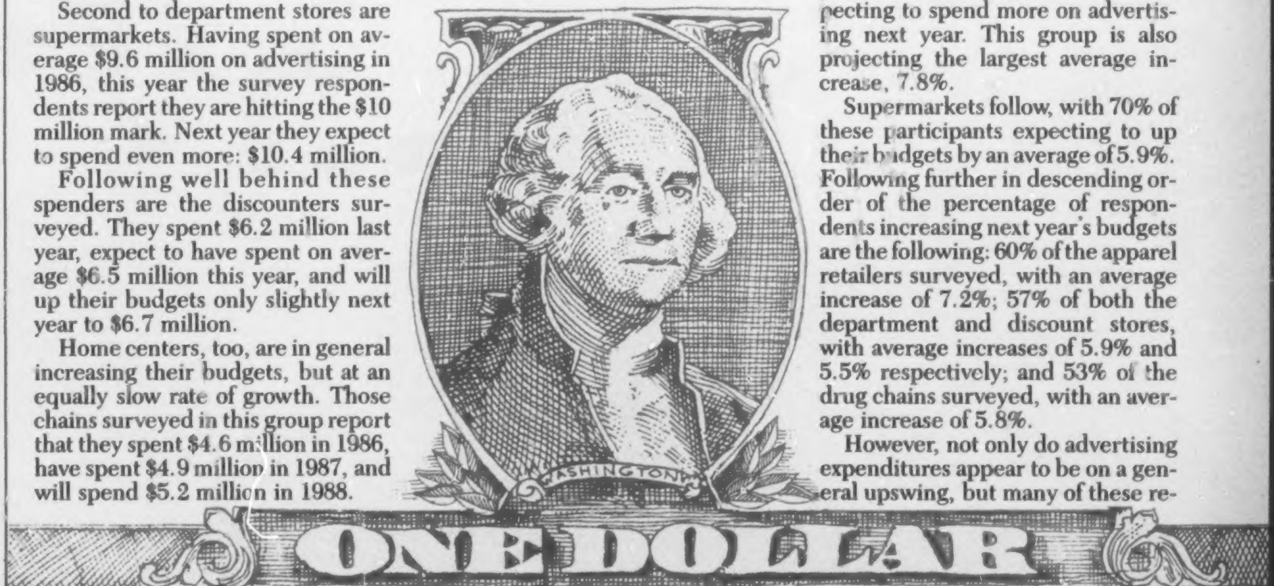
For those retailers reporting increases, the primary reason given was "opened stores in new market area," cited by 45% of these respondents. Other major reasons for the higher level of expenditures were "increased competition in market area" (40%), "newly remodeled stores" (35%), and "opened additional stores in existing market areas" (33%).

Looking ahead to 1988, 62% of the respondents indicate they expect to spend more on consumer advertising; the average increase projected is 6.4% over 1987's spending levels. (Thirty-one percent report they expect expenditures to remain the same; 6% expect a decrease.)

Broken down by retail classifications, the largest group projecting 1988 spending increases are the home center operators who participated in this survey, with 73% expecting to spend more on advertising next year. This group is also projecting the largest average increase, 7.8%.

Supermarkets follow, with 70% of these participants expecting to up their budgets by an average of 5.9%. Following further in descending order of the percentage of respondents increasing next year's budgets are the following: 60% of the apparel retailers surveyed, with an average increase of 7.2%; 57% of both the department and discount stores, with average increases of 5.9% and 5.5% respectively; and 53% of the drug chains surveyed, with an average increase of 5.8%.

However, not only do advertising expenditures appear to be on a general upswing, but many of these re-



tailers are making changes in how these dollars are spent. For example, price/item advertising, while continuing to account for the lion's share of advertising dollars spent, is expected to receive somewhat less emphasis next year. Instead, many of the retailers surveyed, apparel specialty chains in particular, expect to spend a larger proportion of funds on image advertising in 1988.

In general, retailers are also taking a closer look at their media mix—and often making some changes. Broadcast advertising (especially television) is growing in popularity among almost all categories (the exception being supermarkets).

Also growing in popularity is the use of direct mail advertising. Apparel chains, discounters, drug stores, home centers and supermarkets all expect to devote more of their advertising budgets to this category in 1988. Conversely, department stores, which have traditionally been large users of direct mail, are expecting to devote a significantly smaller percentage of their budget (down to 15% from this year's 20%) to this medium.

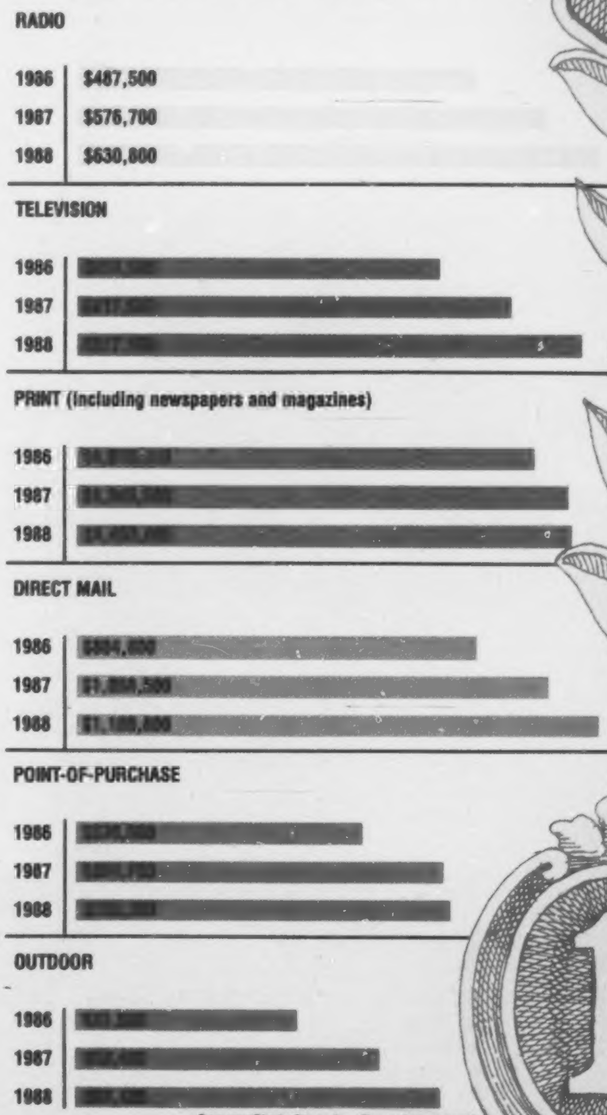
The situation is more mixed when it comes to the projected use of print advertising (newspapers and magazines). Department stores, discount chains, and supermarkets all expect to spend a slightly higher percentage of their budgets on these advertising vehicles in 1988. (The percentage the apparel chains are expecting to spend remains unchanged.) On the other hand, drug chains and home centers are expecting to spend a somewhat larger percentage.

Who at the chain headquarters is making such decisions? The survey indicates, not surprisingly, that the vp/director of advertising is the most involved overall in setting the advertising budget and selecting the various media to be used. However, when it comes to setting the actual advertising strategy, the chain's ceo/president also becomes very much involved.

In addition, an overwhelming majority of the respondents surveyed (84%) report that they have their own in-house advertising department that develops the necessary consumer advertising. Only 14% of the total sample utilizes an outside agency (although apparel retailers and drug chains are slightly more likely to use an outside source).

Overall, the average size of the in-house advertising department is 17 people. Their job: to make sure that the larger and larger sums of money being spent on retail advertising and promotion are reaching the right targets. It's not an easy task. ■

Average media expenditures



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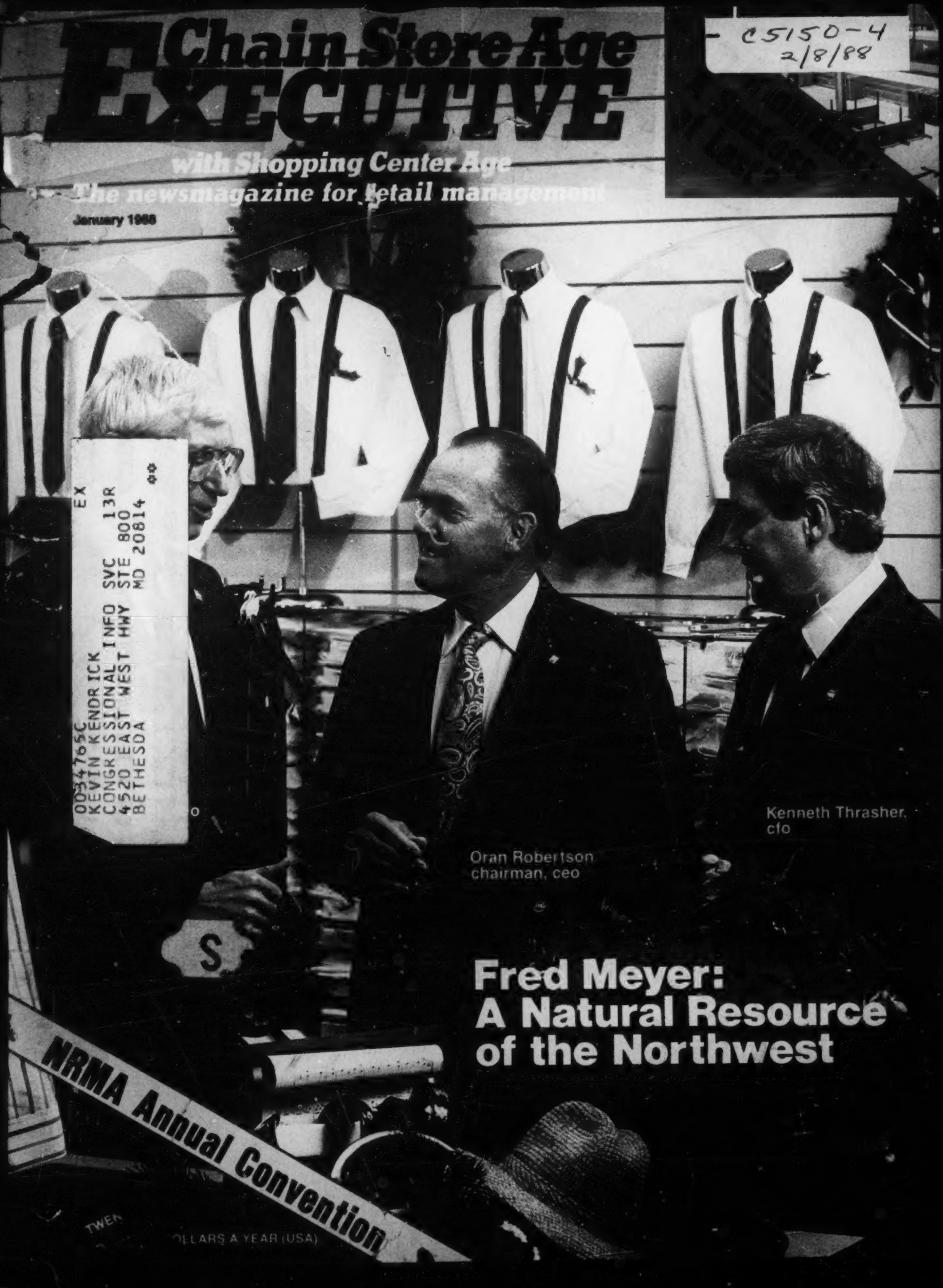

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FROM THE EDITOR'S DESK

SUCCEEDING DESPITE THE ODDS

"Every retail strategy will eventually fail." These words were spoken by Dr. Carl Steidtmann, vp and chief economist, Management Horizons.

I'm not sure I agree fully with Steidtman, but his remarks couldn't be more timely.

First, I believe retailing itself is fast approaching another crossroads. While I'm not as full of doom and gloom as are many others of my journalistic brethren, I am nonetheless afraid that there are tough times ahead. Will consumers still spend money? Yes. But will they be even more discerning in selecting the places where they open their wallets? Again, the answer is yes.

What this means is that it's time for retailers to rethink every aspect of their businesses, from sourcing, to warehousing and distribution, to how the merchandise is actually presented in the stores.

And many of the weak operators simply may not survive. Let's face it, folks, another retail shakeout is looming.

However, some of those companies that don't make it into the 1990's may not necessarily fail because of bad management. Instead, they may fall victim to changing times. Their reason for being may simply no longer exist.

Sadly, that is what we have seen happen recently in the case of another publication produced by our parent company, Lebhar-Friedman. *Chain Store Age General Merchandise Trends* publishes its last issue this month.

This magazine began as *Chain Store Age, Variety Store Edition*, with the name changed as the industry it covered changed. Unfortunately, even the heroic efforts of its staff weren't enough to save the publication, as the readers it once served switched to other types of retailing. (Even such general merchandise stalwarts as Sears, Roebuck and J. C. Penney have started to venture into specialty retailing.)

However, even as we mourn the demise of our sister publication, *Chain Store Age Executive* has never been stronger. The year 1987 was a record one for the publication in terms of both sales and profits. Our editorial staff won major awards and considerable recognition from our readers.

Going into 1988, we have made important additions to both our editorial and sales staffs which further strengthen the product we are able to offer our readers. We are also particularly proud of the promotion of John Rapuzzi to publisher of the magazine and believe that under his leadership *Chain Store Age Executive* will continue to flourish. For this, we thank each and every one of you.

—Jacquelyn Bivins

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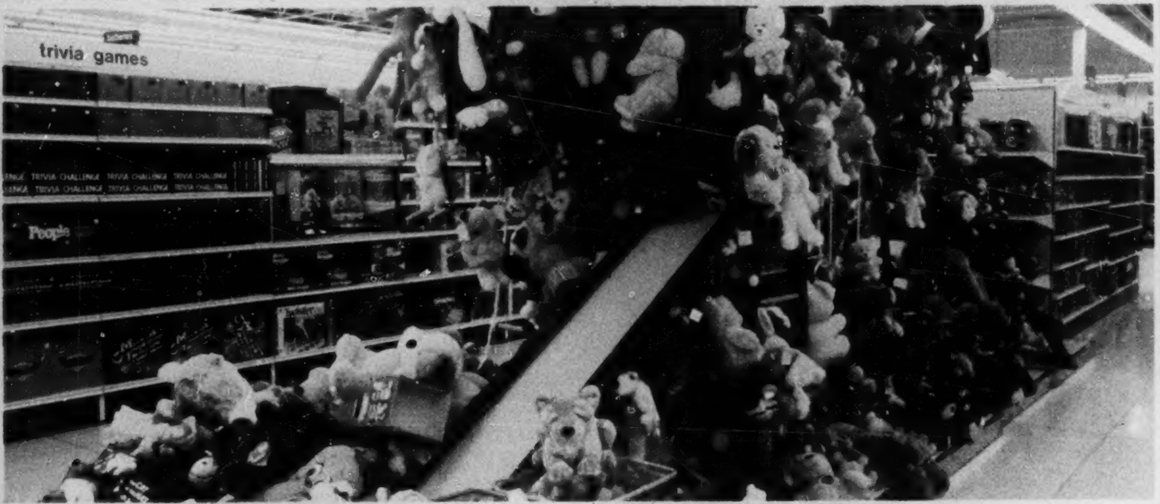

HYPERMARKETS: SUCCESSFUL AT LAST?

Are American consumers finally ready to accept this store format that has long been popular in Europe? Leading U.S. retailers such as Wal-Mart and K mart think so. The first Hypermart USA was scheduled to open late last month; K mart plans to open its first hypermarket-style store, as yet unnamed, before year-end. 15

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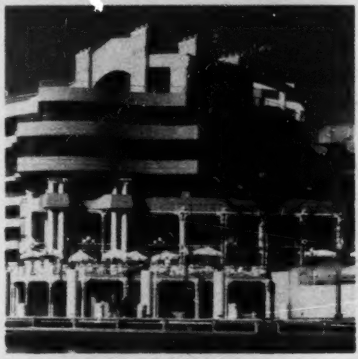


WASHINGTON: A CAPITAL PLACE FOR RETAILING

The demographics of the metropolitan area make the nation's capital an attractive market for expansion minded retailers. They are also finding plenty of store location opportunities as a host of developers continue with new projects as well as the expansion of existing ones. 41

CONSTRUCTION IS BULLISH FOR 1988

CHAIN STORE AGE EXECUTIVE'S SURVEY REPORTS RETAIL SPACE ON THE RISE

Even while the retail industry continues to ponder the question of whether or not America is overstored (the best answer is "maybe"), shopping center developers are adding retail space at a rather rapid rate.

A whopping 100% of those companies involved primarily in regional mall development who participated in a recent research study conducted by *Chain Store Age Executive* expect to increase their total GLA in 1988. This indicates a distinctly more bullish rate of growth than in 1986 when only 70% of this group increased their GLA. (It may also indicate an increased willingness by many department store anchors to commit to new projects.)

The average amount of 1987's GLA increase was smaller too: 1 million sq. ft. for each company surveyed compared with this year's anticipated 1.1 million sq. ft. (Again, this increase is a direct reflection not only of department stores' commitments to build new units, but also to construct them larger than in the past.)

The respondents also report that this year the lion's share of the increase will come through the construction of new centers (expected to account for 65.6%). While several years ago the trend was toward smaller, middle-market regional malls, now at least a few savvy developers seem to have found sites suitable for larger centers. In other words, while these survey participants report that the average size of their new centers opened in 1987 was 450,000 sq. ft., this year it is expected to jump 87% to 844,000 sq. ft. These centers are intended to be regional draws, often having more than two anchors, considerable specialty store space and room for a food court and complementary attractions.

The number of newly constructed malls seems to be increasing too, from an average of two per respondent in 1987 to 2.8 projected for this year. New mall construction may not be what it once was, but it is clearly on the rise.

The remainder of the anticipated increase in regional mall GLA will come from the expansion of existing centers (accounting for 23.7% of the total) and acquisition (10.7%). Expansion appears to have slowed slightly from previous years with some developers perhaps simply running out of suitable projects.

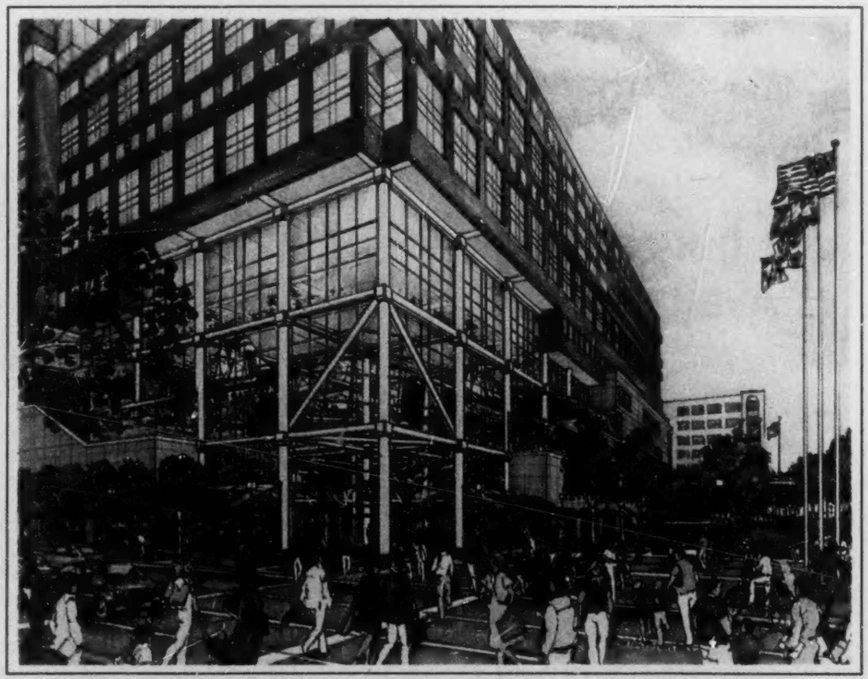
The survey participants specializing in neighborhood/convenience/community centers are also growth-minded. For the past several years this has been by far the most active area of development and the pace shows few signs of abating; 89% of this survey group expect to add to their total GLA this year. The average level of increase is anticipated to be 384,000 sq. ft., up 53.7% from the average of 250,000 sq. ft. added last year (when only 78% of the group made such additions.) Some of this increase in size can be attributed directly to the larger average size of small center anchors, including supermarkets. Where supermarkets used to be considerably less than 30,000 sq. ft., now they average well above this level and may be even as large as 60,000 sq. ft.

Like the situation in regional malls, the bulk of this increase in neighborhood/convenience/community center development (81.4%) is coming from new center construction. Only 7.4% is coming from the expansion of existing centers and 11.2% is expected to come through acquisition.

The new "small" centers to be built are considerably larger than those built last year, expected to average 257,000 sq. ft., or a whopping 123% above last year's average size of 119,000 sq. ft. (Again, the increase may reflect the larger square footage requirements of anchors such as supermarkets, as well as "power retailers" such as Child World, Home Depot and Toys "R" Us.)

This year the annual *Chain Store Age Executive* survey also takes a look at development activity by companies specializing in "other" centers. This group is comprised of developers who report that their primary area of activity is mixed-use/multi-use centers as well as those who report they are primarily involved with specialty centers.

Among this group, 78% expect to increase their total GLA this year, up



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from 89% who report having done so in 1987. The average level of increase by each member of this group is anticipated to be 368,000 sq. ft., or up slightly from last year's 347,000 sq. ft.

As is the case of other types of development, the bulk of the increase, or 69.6%, is expected to come through the construction of new centers, 18.6% through the expansion of existing centers, and 11.8% through acquisition.

While the largest amount of "other" center construction took place in the Southeast last year, this year the Mid-Atlantic is expected to be the major area for such development, according to the survey participants. This was cited as the primary geographic area of new center construction, according to 33% of the respondents. Twenty-five percent expect to do the bulk of such construction in the Southeast, 17% in the Southwest and Pacific states specifically; 8% did not answer this question.

The Southeast appears to still be the region of No. 1 choice among neighborhood/convenience/community center developers, despite reports of small center overbuilding in many areas of Florida in particular. Exactly half of this group say that this will be their primary area for new center building this year. This area is followed in popularity by the Southwest, the primary area for 29%, the Pacific states (14%) and the Midwest (7%).

As for those survey respondents specializing in regional mall development, the primary areas of new construction (much of which is already under way) appear to be the Southwest, Pacific states and the Southeast. Each region is cited as the primary area of new shopping center construction by 25% of the respondents, respectively; 13% report that the Mid-Atlantic is where they are putting most of their energies.

Looking ahead to 1989, so far 80%

Construction costs: Somewhat under control

Not only are developers adding plenty of new space this year, but they are spending plenty of money to do it. Still, most are slightly better off than they were last year.

According to a survey conducted by *Chain Store Age Executive*, the average cost per square foot for new construction this year is $50.50, down slightly from last year's average of $51.50.

However, there's been a dramatic jump in the cost of constructing new malls, according to survey participants specializing in this area of development. They report that the average cost per square foot for new construction is $47.50, up 43% from last year's $33 per square foot.

Conversely, the cost per square foot for the construction of neighborhood/convenience/community centers has declined by approximately 10%, down to $62.10 per square foot compared with 1987's $68.30.

Companies participating in this study who cite "other" types of centers (multi-use/mixed-use and specialty projects) as their major area of development activity, also report lower costs for new construction. They expect to spend $44.30 per square foot this year, down slightly from last year's $45 per square foot.

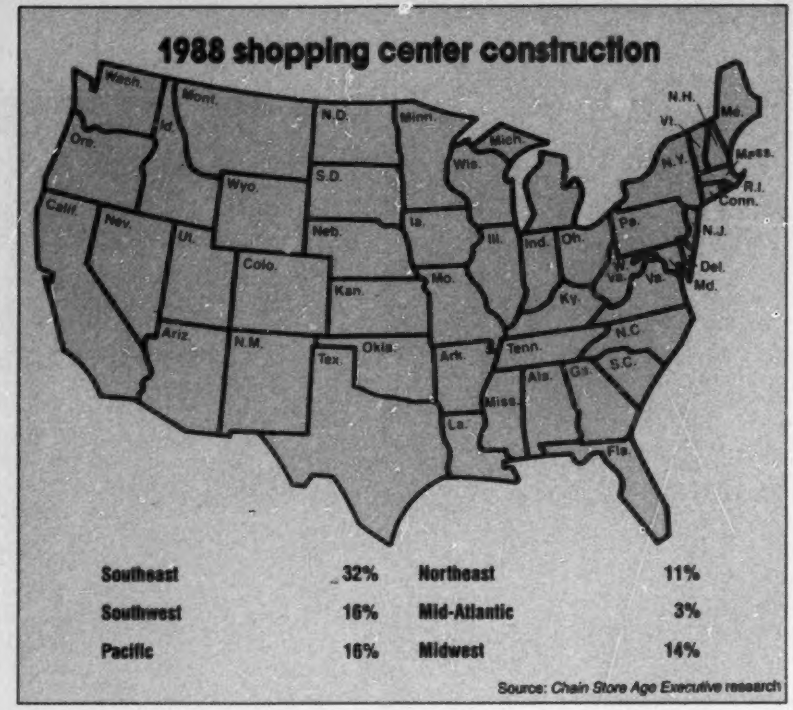
However, when it comes to the expansion of existing centers, the "other" group is spending considerably more than last year, with costs per square foot rising to $37.50, or 25% above 1987's $31.10 per square foot.

Regional mall developers are also spending more—$50.40 per square foot compared with last year's $47.40.

Developers of neighborhood/convenience/community centers are thus the only ones spending less this year for center expansion. Their costs have fallen slightly, to an average of $38.40 per square foot, from 1987's $39.50.

What's clear is that center development doesn't come cheaply, so it's no surprise that 62% of this year's survey participants expect more joint venturing to occur in the industry this year; 26% see the amount of such partnerships remaining about the same; 10% expect to actually see less.

At the same time, the purchasing of centers by institutional buyers will also speed up, according to 64% of this group. Ten percent expect to see less institutional buying, and 22% expect to see about the same level of activity.



1988 shopping center construction

Southeast	32%	**Northeast**	11%
Southwest	16%	**Mid-Atlantic**	3%
Pacific	16%	**Midwest**	14%

Source: *Chain Store Age Executive* research

of the regional mall specialists participating in the survey expect to increase their total GLA still further, and by an average of 1.15 million sq. ft. per company. A full three-quarters of this increase is projected to come from the construction of new centers with the remaining 25% from expansion of existing projects; no additional acquisitions are expected.

Among the specialists in the category of neighborhood/convenience/community centers, 83% expect to be actively increasing their GLA holdings in 1989. However, the average size of the increase is expected to be 283,000 sq. ft., less than this year's level. Too, while the bulk of the increase is anticipated to be coming from new center construction, this will be playing a smaller role than during the coming year. In 1989, these respondents expect that new construction will account for only 76.6% of their increased GLA (down from this year's projected 81.4%). Expansion of existing centers will account for 15% and acquisition, 8.7%.

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milltown mall WOOSTER, OHIO
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miami valley mall PIQUA, OHIO
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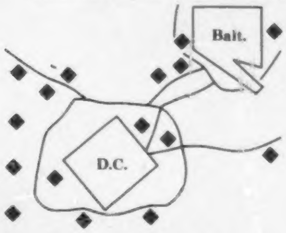

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"other" types of centers, this group is bullish about 1989, with 78% expecting to increase their GLA and by an average of 450,000 sq. ft., up well above this year's anticipated increase. Construction of new centers is forecast to account for 82.3% of the increase, expansion of existing centers 7.7% and acquisitions, 10%.

One thing is for sure. If all of these growth plans proceed on schedule, retailers who are eager to expand their store count won't suffer from any dearth of opportunities. ■

Minimal impact so far

As part of *Chain Store Age Executive's* annual construction outlook survey, participants were presented with three different economic factors. They were asked if they believe these factors will inhibit shopping center construction in 1988.

Obviously, October's stock market crash was one of the factors presented. According to the survey, it appears to have virtually no effect on construction schedules; 98% of the participants report this will have absolutely no effect this year.

In addition, 96% say that the fear of higher interest rates will not affect the current year's construction plans; 94% state that the overall uneasiness about the economy also will have no impact on their development activities in 1988.

The survey group was also questioned about the impact of last year's major tax law changes on construction: 82% say no changes have been made from their original plans based on this factor.

Developers appear to be quite aware of the threat of overbuilding, particularly when it comes to small center development. However, they are optimistic that the situation will start to correct itself with 66% of the survey participants expecting fewer small centers to be constructed this year; 20% expect approximately the same number to be constructed, and 10% actually expect to see even more built.

The respondents (68%) also expect to see fewer regional malls built. Approximately the same number of regional malls is forecast by 22%, and 8% expect to see even more built.

TODAY'S NEEDS VS. TOMORROW'S POSSIBILITIES

POS SYSTEMS ARE BEING USED FOR MUCH MORE THAN COLLECTING SALES DATA

The real crux to selecting a POS system is to stop thinking about it as a POS system and to instead ask yourself, 'What do I do in the store? What kind of information do I need to be able to operate effectively? And, what kind of information do I need to supply the home or regional or district office?'" Randy L. Allen, partner in the Newark, N.J., office of Touche Ross, offers the advice to retailers at a time when POS requirements, technology and pricing are changing rapidly.

No longer are POS devices simply for collecting information on sales; today they are used for so much more. "We want to send markdowns [electronically] to the store instead of sending paper; we want them to be able to tell us how many of that item we had when we marked it down; and also to be able to put in transfers either showing what store it's from or where I'm transferring it to." The list Allen cites is seemingly endless.

Retailers no longer need to just keep a running tally of what is sold. There are other considerations, such as the POS system's ability to handle:

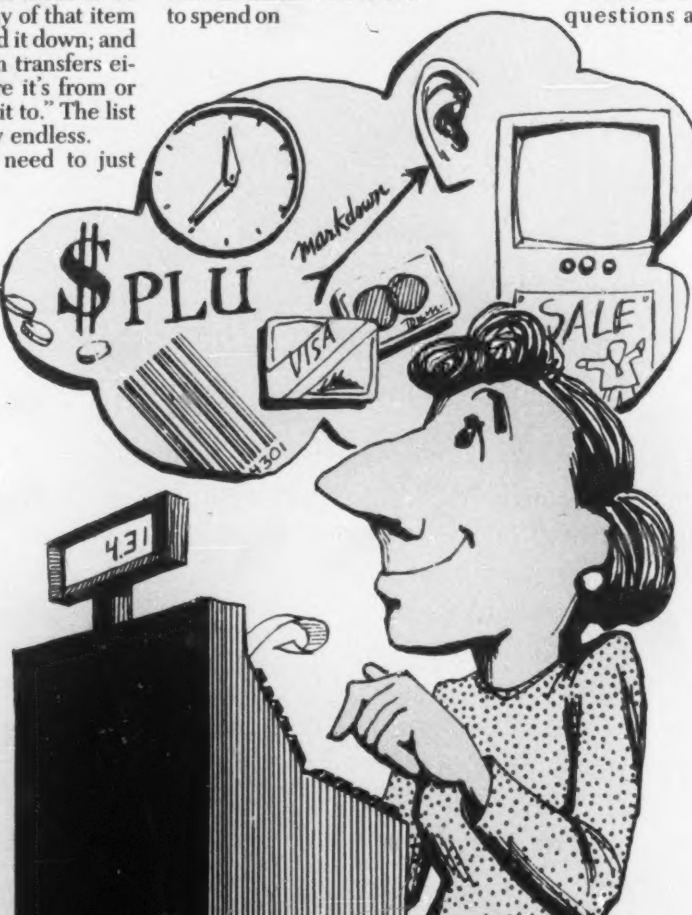
- communications;
- markdowns, transfers and receipts of goods;
- time and attendance, and labor scheduling;
- scanning;
- full price look-up;
- the addition of a credit card reader or PIN pad;
- the integration of electronic shopping media.

Then, of course, there are issues like how much flexibility of programming does one want—both at headquarters and store level? Are reliability and maintenance critical points? How much can one afford to spend on upkeep?

Besides the functions that a retailer wants to perform, there are hardware considerations arising out of the size of the store and the retail format being served. "A specialty apparel store is by-and-large a one or two register store," Allen points out. "It may be expensive to have a couple of registers and a PC. But as the cost of PCs has come down there's been more potential to do that.

"If you take a home center which may have eight to 10 registers," she continues, "it's very easy to justify some small computer plus the POS devices in the store. As you get into a department store, that's more and more true."

After a retailer answers all the questions about what exactly he



wants to do in his stores, then, Allen advises, putting a timetable together to do those things is the next logical step. "With the global needs well understood, I can look at making a POS [buying] decision knowing I'm not going to do all those things right now. What I may really want to do is capture sales information effectively at this point in time, but whatever I select has to have the capability and flexibility to grow to meet those other needs," she explains.

"The key to the whole POS decision becomes looking at what I really want to do in total vs. what I want to do now. I have to make sure that what I want to do now does not preclude my ability to move to that new environment in the future."

Allen also sees POS requirements as being dictated by other related market situations, not just the immediate need for data collection. "As we look at the difficulties in getting and retaining store personnel and store managers, the more things we can do to simplify their jobs, the better off we'll be because we can make them more effective," Allen points out.

"We can focus them in on the important things which are servicing the customers and making sure the merchandise gets rotated and displayed appropriately. We can have them spend less time doing paperwork and having them make decisions we may not have trained them well for."

Then there are the operational issues which are only now beginning to surface, such as electronic data interchange (EDI) and Quick Response that may affect POS requirements. "To deal with EDI and QR means I need to have accurate sales information, return information, etc., down to the sku level," Allen explains. "I want the ability to scan to ensure that information is accurate. And I want to get [the information back] as quickly as possible so I'm really projecting my sell-through."

In order to take full advantage of the benefits of Quick Response, one must know the status of specific merchandise down to the color and size level at all times. "It starts to become much more important for me to know when I got an item into the store," she emphasizes.

"If you take a multi-state specialty apparel chain, depending on how they ship, it can take a week to two weeks from the time an item is received in the distribution center to the time it's on the selling floor," she continues. "If I don't understand the flow-through time, how I respond to the rate of sale may be inappropriate. I may think an item's been in the store for a week when it hasn't, and so I may miss trends, which is very important for the Quick Response issue."

POS operational benefits

	1986		1981	
	Initially expected benefit	Realized expected benefit	Initially expected benefit	Realized expected benefit
Faster information	69%	79%	75%	87%
More accurate information	69	78	74	87
Additional sales information	67	77	65	79
Improved payroll and commission data capture	46	77	37	65
Reduced date entry (keypunch, optical scanning, etc.)	64	72	60	87
Reduced sales audit costs	59	70	73	75
Increased accounts receivable cash flow	50	65	31	78
Increased sales	54	42	31	62
Reduced bad debt	57	61	33	79
Ability to handle peak season	61	72	48	83
Improved salesperson productivity	63	67	52	76
Improved salesperson morale	62	66	30	82
Improved store image	64	71	38	87

Source: Touche Ross; NRMA

Projecting out even further, if Quick Response takes hold and more manufacturers start UPC marking, there may be a return to drop shipping merchandise to the stores in order to cut a few days off the distribution cycle. In that event, it becomes essential to let stores know a shipment is coming and what it will contain.

"That means I need to be able to tell the store manager, either through the POS system or a computer system at store level, that he's going to receive this shipment on a certain day from this vendor and these are the items he'll be receiving," Allen points out. "And when he gets that shipment he needs to be able to say he got it and that there are some quantity differences from what he thought was coming. And he needs to be able to send that information back to the central site."

Another function that's catching on is the use of the POS system for personnel scheduling based in customer traffic. The catalyst here, of course, is the worsening labor shortage that is forcing retailers to more effectively utilize the personnel they do have.

While credit authorization has been an issue for some time now, electronic funds transfer, a related issue, is just now starting to cause retailers to think about the future. "I need to think about being able to put a credit card reader device on my POS terminal at some point in the future," says Allen.

"If there's one built in, I need to know if I can attach a PIN pad . . . There's the issue of authorization of bank cards and T&E cards and the ability to run that card through a reader, get an automatic dial line or dedicated link, get the authorization back quickly and then be able to do electronic settlement between myself and the card issuer," she points out. "That's a trend that will continue to grow."

Finally, there's the newest ball of wax just now being tested by retailers like Zayre, the Framingham, Mass., discounter: pinpoint marketing. "The ability to capture information about the customer will have an impact [on the POS buying decision]," Allen predicts. "We may see people who don't issue credit cards looking for creative ways to collect information on who's buying and what they're buying. Maybe you'll give out customer identification cards that they use each time they shop because you give them an incentive to use them."

The last issue Allen touches on looks fairly far into the future. It is the issue of self-checkout. "Look at the labor shortage and look at peak selling times of the year—frankly, if I could check myself out and not wait in line, I would do that," she admits.

At the present, the whole notion of self-checkout is only now being looked at by retailers like Cincinnati-based Kroger. But, while it may be in its infancy now, says Allen, "It's an issue that will come along on the five to 10 year horizon in terms of getting beyond the experimentation stage." ■

RETAIL MIS FIELD REFLECTS TECHNOLOGY TRENDS

ARTHUR YOUNG SURVEY SHOWS BAR CODING IS HOT, EDI USAGE IS NOT

"If they had said they were just *looking* at it, then I wouldn't have been surprised. But the fact that they said they were currently using it or planning to use it, I find *that* to be really surprising," says Kathleen Cook, Arthur Young's director of retail consulting services headquartered in New York.

The object of Cook's surprise is a positive response from 73% of the respondents in a recent survey indicating that bar-code technology is either currently in use or on the horizon.

The figure, released as part of the sixth annual Arthur Young *Retail MIS: Expenses and Trends* report, is one of many that clearly illustrate that the retail MIS field is changing, not to mention gaining importance and a heftier portion of the overall corporate budget.

The responses to the question concerning bar-code technology reveal that the likelihood a retailer would use bar coding increases with his dollar volume. Fifty-eight percent of those chains doing under $20 million in volume indicated that bar-code technology is in use or will be used in the future. The percentage increases to 65% for chains doing $20 million to $99 million, and to 77% for retailers with a sales volume of $100 million to $500 million. The highest percent of positive responses, 84%, came from chains doing over $500 million in volume.

Examining the responses by retail sector shows that mass merchants have the greatest interest in bar coding with 92% indicating they plan to use the technology; combination/grocery stores came in next at 81%, closely followed by department stores with 80%, and with the least amount of interest shown by the specialty stores with 60%.

Retail MIS: Expenses and Trends measures the responses by 135 retail organizations having a combined 1986 sales total of $64.1 billion. Represented were 28 mass merchants comprised of discounters, general merchandise, drug and variety stores, all with multi-departments, limited customer service and central checkout; 21 department stores with departmental checkout and highly visible selling service; 60 specialty stores with generally less that 7,500 sq. ft. of selling space; and 22 combination/grocery stores where, in most cases, grocery sales account for a majority of the total annual sales revenue. Survey results are reported both by retail sector and by sales volume grouping: under $20 million, $20-$99 million, $100-$500 million and over $500 million.

Interest in electronic data interchange, one of the most highly publicized industry issues today, was measured by the survey and responses showed that while there is much talk, there is little action. Only 10% have some sort of EDI system in place with another 5% currently testing some pilot program. The bulk of the survey group, 46%, indicate that they have no plans to link up electronically with their suppliers. However, 40% say they are planning to use EDI within the next 18 months.

The addition of EDI to the retailer's technological repertoire is only one of many areas being targeted for development or improvement. When allowed to select among 20 different MIS software areas, half of all retailers indicated that POS applications software would get more of their attention in the next two years than anything else. Following POS are inventory control and merchandise planning systems, both of which were earmarked for upgrades by 44% of the respondents.

Looking at planned software improvements by retail segment showed that mass merchants selected POS (72%), sales reporting/analysis (48%), inventory control (44%) and stock replenishments (44%) as the areas targeted for improvement in the next two years.

Department stores have a different set of priorities: 71% of all depart-

MIS systems planned for development/improvement over next 2 years

	Sales (in millions)				Type of store				
MIS areas	Under $20	$20-99	$100-500	Over $500	Mass merch.	Dept.	Specialty	Comb./ grocery	All participants
Point-of-sale	38%	54%	55%	48%	72%	39%	53%	35%	50%
Inventory control	38	42	45	52	44	43	46	40	44
Merchandise planning	23	38	51	52	40	71	40	35	44
Stock replenishment	31	38	40	52	44	67	30	45	40
Purchase order management	31	38	47	32	28	62	36	45	39
Sales reporting/analysis	31	42	32	32	48	24	33	40	35
Open-to-buy	31	38	38	32	32	48	39	15	34
Accounts payable	15	31	32	45	40	19	35	30	33
Receiving	15	23	40	39	32	38	32	35	32
Distribution	15	19	36	42	36	43	28	30	32
General ledger	15	27	23	32	32	33	30	15	28
Human resources	—	27	36	16	32	19	21	20	24
Payroll	31	31	23	16	28	14	25	20	23
Financial planning	23	38	19	16	20	24	23	15	21
Sales audit	15	19	21	26	28	33	16	15	20
Accounts receivable	23	19	11	23	20	24	12	25	18
Fixed assets	23	23	13	19	20	5	19	25	17
Direct mail marketing	23	19	13	—	8	10	18	5	12
Credit management	8	19	9	6	8	24	9	5	10
Foreign importing	—	15	9	6	4	14	11	—	8
Other	—	—	2	3	—	—	2	5	2

Source: Arthur Young

Types of POS devices used

	Sales (in millions)				Type of store				All participants
	Under $20	$20-99	$100-500	Over $500	Mass merch.	Dept. Dept.	Specialty	Comb./grocery	
Retailers (%) using POS	71%	89%	91%	97%	93%	95%	86%	90%	89%
Electronic cash registers	21	61	59	52	70	48	36	86	53
Programmable (soft) cash registers	29	32	50	64	41	71	46	29	47
Hand-held terminals	—	11	22	21	30	5	8	38	17
Micro/PC with cash drawers	36	11	4	18	11	5	14	14	12
Mechanical cash registers	—	4	4	3	11	5	—	—	4
Other	—	—	2	3	—	—	3	—	2
% Not using POS	29	11	9	3	7	5	14	10	11

Source: Arthur Young

Length of time POS system installed

	Sales (in millions)				Type of store				All participants
	Under $20	$20-99	$100-500	Over $500	Mass merch.	Dept. Dept.	Specialty	Comb./grocery	
Less than 1 year	30%	12%	24%	3%	13%	10%	19%	—	14%
1 - 2 years	50	12	19	10	21	5	19	16%	16
2 - 4 years	10	12	17	25	24	15	17	21	19
4 - 7 years	10	28	19	23	21	10	27	36	24
7 - 10 years	—	12	7	23	13	20	10	16	13
10 or more years	—	24	14	16	8	40	8	11	14

Source: Arthur Young

ment store respondents cited merchandise planning as an area to be upgraded, followed by stock replenishment (67%), purchase order management (62%) and open-to-buy (48%).

Over half of all specialty stores (53%) agreed POS was the MIS function to improve over the next two years, followed by inventory control (46%), merchandise replenishment (40%) and open-to-buy (39%). Food stores targeted stock replenishment (45%), purchase order management (45%), sales reporting/analysis (40%) and inventory control (40%).

Additionally, the majority of retailers surveyed (71%) report their software programs are developed internally rather than purchased from an outside company. However, in those cases where retailers do turn to an outside software vendor it is usually for financial applications such as general ledger, accounts payable, payroll, fixed assets and POS.

It is no surprise that POS software should be the area cited most often by retailers as an area to be upgraded simply because so many retailers make use of some sort of POS software; fully 89% of those surveyed have a POS data collection device in place. Fifty percent of the smallest retailers surveyed leaned toward installing microcomputers and PCs with cash drawers that could be programmed to perform other functions.

As sales volume increases, the tendency to use electronic cash registers becomes greater. Fifty-nine percent of the mid-sized chains and 52% of the largest chains reported using electronic cash registers. Looking at the breakout by retail type, 70% of the mass merchants and 86% of the food retailers favored electronic cash registers. Department stores and specialty stores favor more sophisticated programmable registers with 71% and 46%, respectively, citing those soft terminals.

When questioned about how their POS systems are used, the most commonly cited functions were sku sales capture (done by 87% of the respondents), price changes (53%), third party credit authorizations (45%) and layaways (42%). Following those are full price look-up (42%), promotional price look-up (41%), credit account payments (35%), in-house credit authorization (34%) and wanding/scanning (30%).

When questioned on the addition of POS functions planned over the next two years, retailers who don't have that second tier of functions previously cited are planning to install them: full price look-up is intended by 52%, promotional price look-up by 45%, and wanding/scanning by 42%.

The POS hardware is another area that was examined in the survey. Over the next two years, 41% of all retailers surveyed indicate they will change or upgrade their POS hardware, with more department stores (50%) indicating there will be POS changes than any other type of retailer. The upgrades/changes are logical considering department stores have the oldest installed base of the equipment; 60% of all department store respondents have had the equipment seven or more years.

With all the anticipated activity in the MIS area, it is not surprising then that the cost of MIS activities as a percentage of sales rose from 0.88% in 1985 to 0.94% in 1986. Average MIS expenditures were highest among specialty store retailers (1.21% of sales) and lowest for combo/grocery chains (0.33%).

Additionally, the survey revealed that 46% of the respondents' MIS budgets went to computer hardware, compared to 50% in 1985. Capital dollars spent on POS devices increased seven percentage points to 25%.

Reflecting the growing importance of MIS activities in chain operations is the way reporting responsibilities are shifting to the non-financial chain of command. While chief financial officers continue to be at the head of the pecking order for the greatest share (44%) of MIS department operations, other administrative officers are moving in. Thirty-four percent of the survey's respondents indicate that they report to the president or ceo; 15% named the vp-administration or coo.

Finally, the Arthur Young survey attempted to measure the human factor involved in the job and it found that MIS execs have a high frustration level. While the frustration factor varied by retail sector, 58% of the total respondents claim that "resistance to change" is a hindrance in implementing MIS programs. On the other hand, 97% of the respondents said that the quality of the interpersonal relationships between their own departments and those of the users could be characterized as "smooth and cooperative." ■

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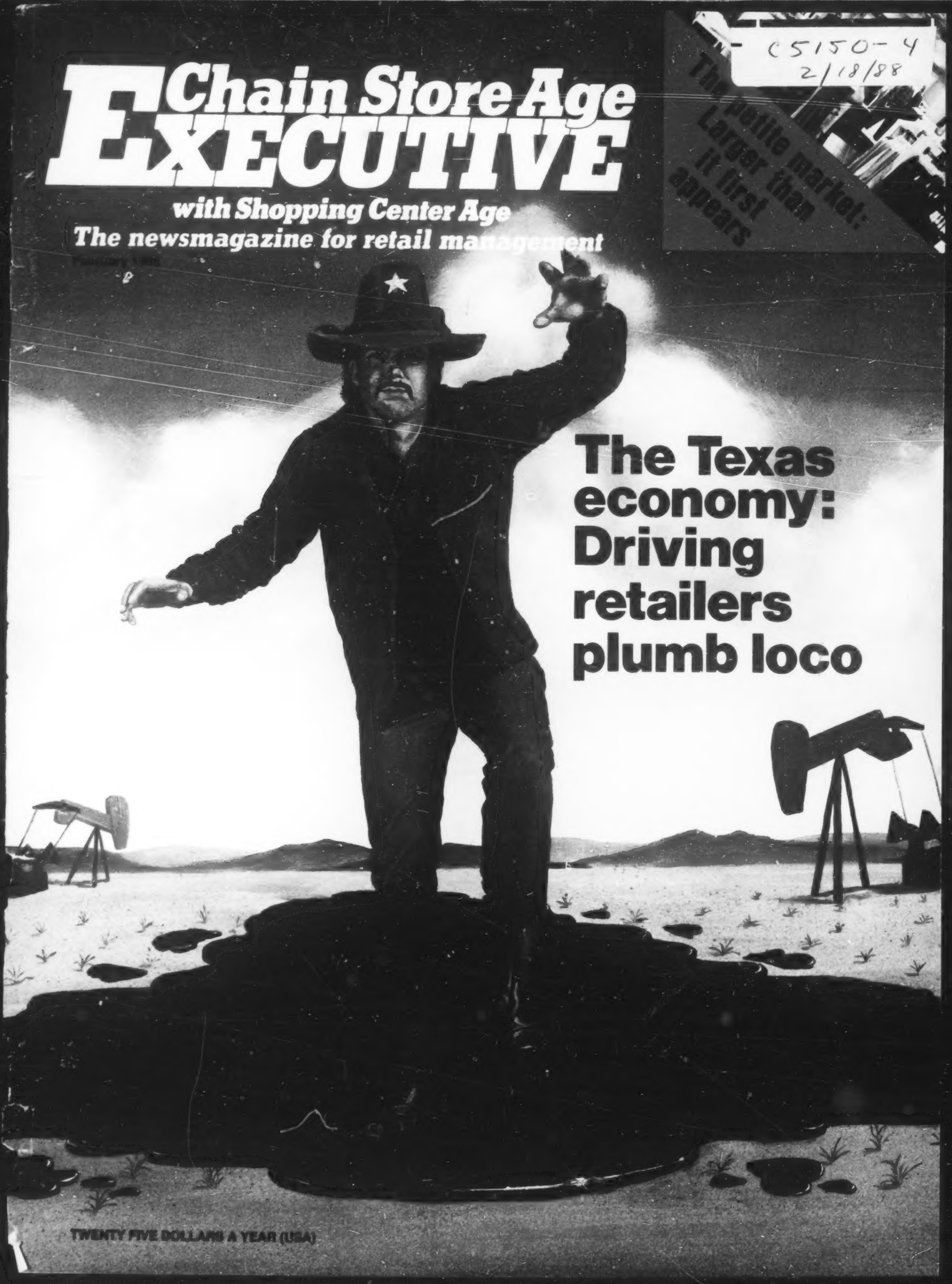
with Shopping Center Age

The newsmagazine for retail management

February 1988

The petite market: Larger than it first appears



The Texas economy: Driving retailers plumb loco

TWENTY FIVE DOLLARS A YEAR (USA)

[illegible] Vol. 64, No. 2, February 1988

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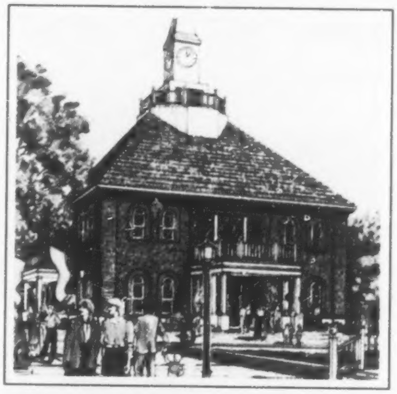
SHOPPING CENTER AGE



THE 'OLD NEIGHBORHOOD' COMES TO SUBURBIA

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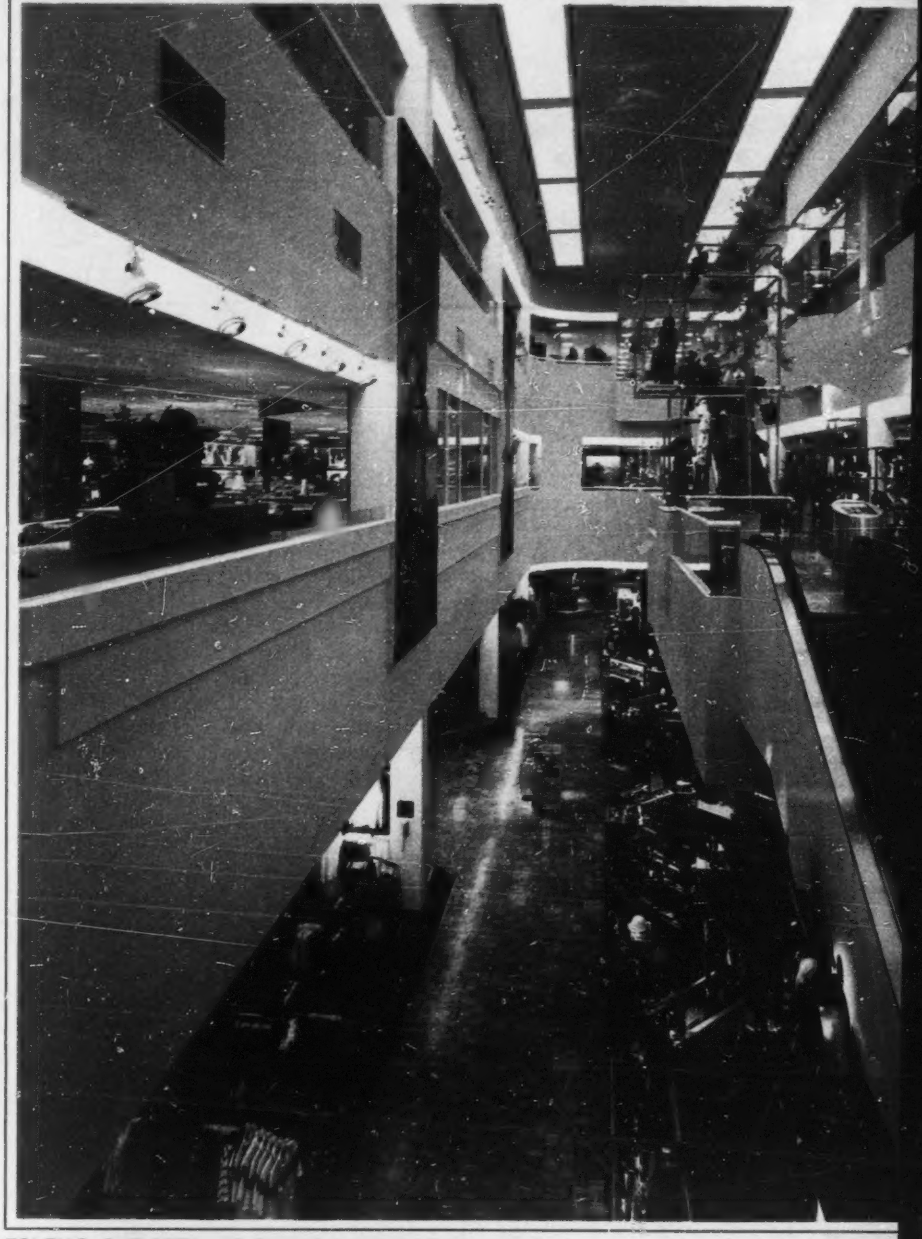
WILL TEXAS RETAILERS FIND A HOME ON THE RANGE?

SLUGGISH RECOVERY CHALLENGES SALES GROWTH IN LONE STAR STATE



FOLEY'S: ONE RETAILER FACING A 'DOUBLE WHAMMY'

It's enough to make a cowboy go plumb loco.

Just as the Texas economy began to recover from the dual 1982 disasters of an unexpected drop in the price of oil and a devaluation of the Mexican peso, it's all happened again—albeit to a lesser extent.

The December 1987 drop in the price of oil, coupled with yet another devaluation of the peso in November, has further slowed an already sluggish recovery. For Texas-based retailers, the fallout from Black Monday is just more of the same.

"Overall, Texas has hit a point where it's probably one of the worst economies in the country," says Gary Kastel of Kastel Consulting, a retail consulting firm based in Dallas.

"The Texas recovery should continue, with some growth expected in the national economy next year, but the outlook has certainly softened since the stock market crash," observes Tom Plaut, senior economist for the Texas State Chamber of Commerce, headquartered in Austin.

Still, the aftershocks of Black Monday have left few Texas retailers crying in their beers. After all, as one merchant notes, "No one in Texas lost money in the stock market because they'd already lost it in oil and real estate."

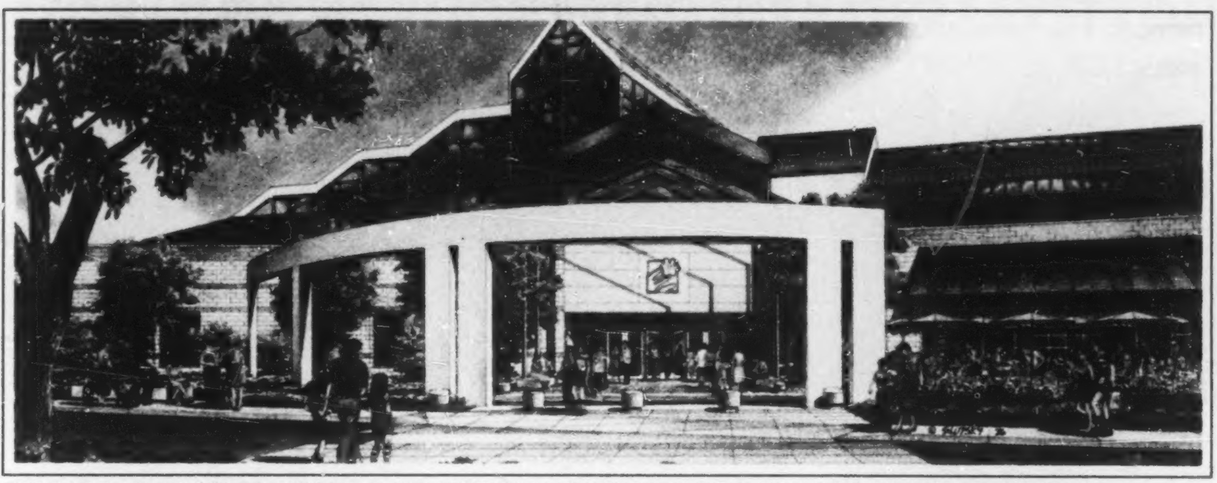
While this might be an exaggeration, such losses have already shown up in their impact on retail sales over the last few years. According to figures supplied by the Texas comptroller of public accounts, retail sales growth has been fluctuating since 1983, finally declining in 1986. 1983 saw sales of $100.3 billion, a 4% increase over 1982.

The biggest jump came the following year, with an 11.7% increase; 1985 saw a more subdued, 6.6% growth. However, 1986 brought a 4.9% decline, a trend which has continued for the first quarter of 1987, the last period for which figures are available; compared with the first quarter of 1986, retail sales declined 5.6%. (Figures include automotive and restaurant sales, as well as the areas traditionally covered by *Chain Store Age Executive.*)

The earlier figures were fueled by the area's population increase. Despite the economic turmoil of the region, the population has continued to grow—and at a rate that outstrips the rest of the nation.

Total estimated Texas population from 1980 to 1987 shows an increase of more than 17%, compared with the 7.4% estimated national rise, according to the U.S. Census Bureau.

As would be expected, the greatest growth came during the early years of the decade, which constituted the "boom"; the 1980 population of 14,736,000 rose 3.57% and 4% during 1981 and 1982, respectively, based on Census Bureau estimates. The rate has been under 3% since, with the 1986 estimate of 16,685,000 a less than 2% increase over 1985 figures. The State Health Department estimates the 1987 population at 17,027,166.



THE PARKS AT ARLINGTON: HOMART DEVELOPMENT'S COMMITMENT TO THE DALLAS/FT. WORTH METROPLEX

Still, Texas no longer represents the golden opportunities for employment that it did in the early 1980s; during those years snowbirds from economically hard-hit areas (the Midwest, in particular) flocked to the Lone Star State. Some of them now may wish they had stayed up north.

According to the Texas Employment Commission, the 1986 unemployment figure of 8.9% exceeds 1983's post-dip high of 8%. The following year saw a rate of 5.9%; the 1985 jobless rate came to 7%.

More current figures for the period of June through November 1987 have fluctuated from a high of 9.6% in June to 7.9% in November, the last month for which figures were available at press time.

All of this continues to provide retailers with a challenge to keep people coming into the stores. Former Houston-based Foley's chairman Lasker Meyer, himself a Texas native, has been disappointed by the slow turnaround. "We really thought that 1986 was going to be the bottom, that with no layoffs being announced, we'd begin to see increased consumer confidence. There was no extra new competition in the marketplace; in fact, 1985 and 1986 saw the closing of many retail stores, including a lot of off-price stores that did not make it through the tough times. So we thought we'd begin to see a pick-up in sales in 1987. Unfortunately, that didn't happen."

According to Carl Steidtmann, vp and chief economist for Dublin, Ohio-based Management Horizons, a division of Price Waterhouse, the broader picture was somewhat different. "Texas retailing bounced back pretty strongly the first half of this year. The large urban markets, Houston and Dallas particularly, had strong retail performances," he says.

However, the future isn't without clouds. "I would not expect that [recovery] to continue for very much longer. There are a couple of problems that the economy faces. One is that a lot of the recent strength in sales just reflect that 1986 was a recession year, so that 1987 was a recovery. That recovery was essentially based on the elimination of a lot of excess oil capacity and a diversification of the Texas economy into more service-oriented components.

"However," he continues, "there's still a large oil sector. The recent decline in the price of oil, and our expectation is that that will continue, will again undermine the Texas economy. We would expect 1988 to be a year not unlike 1986 in terms of retail sales for Texas." Steidtmann again sees Houston as the hardest hit, but predicts that Dallas will be affected as well. Unemployment will again rise, into double digits.

Other financial analysts disagree. "The oil industry bottomed out in January of 1987," says Plaut, noting a slight improvement in the past year. In addition, the rise in drilling activity indicates the worst may be over, but "We're not going to see much growth for the next couple of years," he cautions.

"Things have stabilized," notes retail analyst Fred Wintzer of Alex. Brown & Sons, Baltimore. "Texas is now growing vs. really disappointing results last year, but it's not booming. I'd say the growth out of Texas is still below the national average."

Larry Gresham, associate director of the Center for Retailing Studies at Texas A&M University, College Station, sees diversification as the key to a new Texas.

For example, he cites the influx of high-tech medical firms into the city of San Antonio (the recent opening of Sea World there also created new employment opportunities) as well as Houston's attempts to diversify. Based on these and other activities, Gresham foresees "a broadening of the base of the economy away from oil. In five years I'm not sure it's going to make any difference to our economy what oil does to a large extent, and that will help us stabilize."

However, oil isn't the only problem. At Management Horizons, Steidtmann expects the latest devaluation of the Mexican peso to hurt the border regions as well as the city of Houston, as wealthy Mexicans no longer cross the border to shop. However, he notes, it can also have a beneficial effect. "The fall of the peso will probably encourage more illegal aliens to come here to work, and so the low

Texas retail sales 1982-87**

Year	Sales	% change
1982	$ 96,375,867,945	
1983	100,317,312,283	+ 4.0%
1984	112,084,311,150	+11.7
1985	119,441,153,064	+ 6.6
1986	113,589,410,256	− 4.9
1987 (1st qtr.)	25,160,486,971*	− 5.8

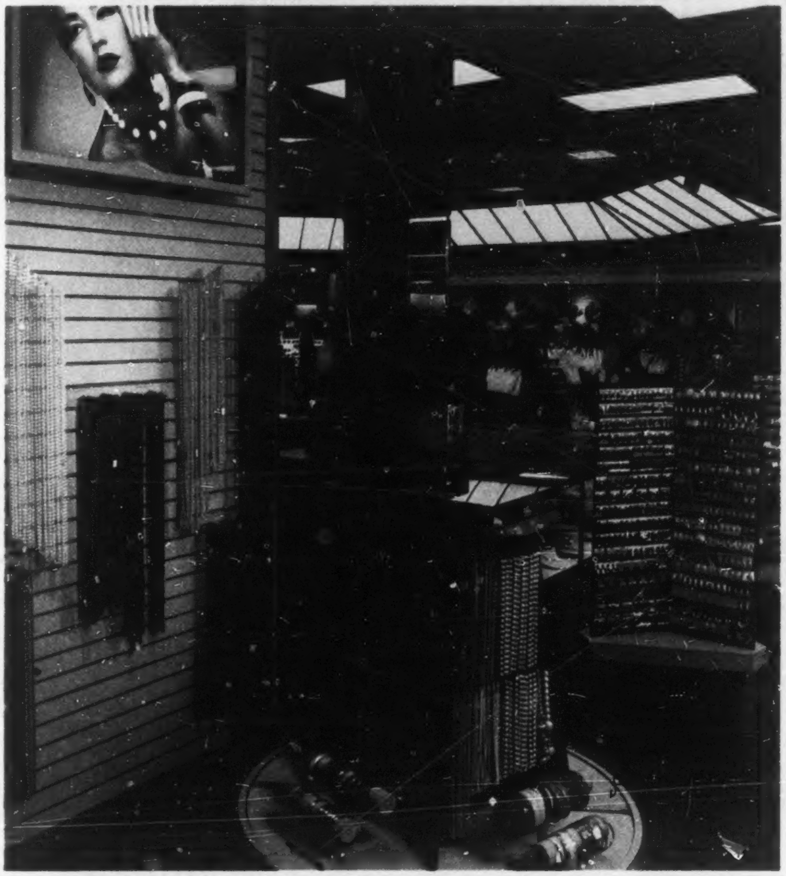
*compared with same period, 1986

**includes automotive and restaurant sales

Source: Comptroller of public accounts, Economic Analysis Center end of the retail market will get some boost from that."

Again, others disagree. According to Greg Campbell, vp, south central region, for Chicago-based Homart, "A change in [oil] price of a dollar or two now doesn't seem to have an impact. The oil companies have already scaled back; I don't think there's much further they're going to go." He also notes that the wealthy Mexicans others had feared would stay home have continued to spend money north of the border, a feeling expressed by other retailers as well.

C. W. Rule, director of public affairs, southern territory, Sears, Roebuck, agrees that 1986 was probably the low point, but notes that sales were up in 1987. Sears, Roebuck operates 58 full-line department stores in the state and, according to Rule, "Our expansion plans do not preclude Texas; we have opened several stores, and relocated the Beaumont and Sherman/Dennison stores." New Sears units are set to open in Arlington in 1988 and Farmer's Branch/Carrollton in 1989.



MERVYN'S: 'NOT TERRIBLY DISPLEASED' WITH SALES IN ITS 36 TEXAS UNITS

Many experts advise caution regarding expansion or new entry plans; the 1981-82 boom led to a great deal of new retail, not all of which survived the downturn. "There's been a tremendous expansion of retailing in Texas generally over the last few years, which was sort of a wide response to the economic boom we saw [in the early 1980s]," says Plaut. "There are probably new stores opening up in different parts of the state, but I'd guess sales per population in those stores are relatively weak."

One of those "new" stores, San Francisco-based Mervyn's which entered the market in 1981, is "not terribly displeased" with sales in its 36 stores in the state, says Rick N. Lodwick, vp-stores. Lodwick cites single to double-digit increases in the state, depending on the area.

"Houston is coming back for us; we're not hitting double-digit increases yet, but we're getting close to it," he says. "Dallas has been the toughest market, not Fort Worth, however," noting that the military bases in the area have helped that economy. Mervyn's is planning one store opening in Texas in 1988—in Arlington.

Still, overbuilding may be the major factor in retail's struggles, not the economy, according to Gresham. "We've now got Macy's, Saks, Marshall Field and Mervyn's, who weren't here five years ago; so some of our large department store chains that pretty well had certain cities sewn up—Foley's in Houston, Joske's in San Antonio and Neiman-Marcus in Dallas—have faced intensified competition. So between that and the slump in the oil economy, the retailers here have been caught in a double whammy."

The double whammy may actually have benefited discounters. Many retailers note that shoppers are watching for sales as never before, and taking advantage of every price-cutting opportunity. "My assumption is that people who, a year or two ago, would not have walked into [an off-price retailer] are now doing so," says Kastel.

According to Ernest H. Zost, vp and district sales manager for Clearwater, Fla.-based Eckerd Drug, shoppers have been cutting back on non-essentials. "Sales have been off for non-basic merchandise such as appliances, videotape and sundries; however, pharmaceuticals, over-the-counter and health and beauty aids have been strong. In fact, they've been supporting us." He notes that sales bottomed out in mid-1987 and have begun to turn around.

Eckerd has more than 350 stores throughout the state, with plans for additional expansion.

New retailers aren't the only ones eyeing moves into the area, according to Houston-based Palais Royal president and ceo Bernard Fuchs. A big drawing card is the fact that bankruptcies and high unemployment have reduced the cost of doing business in many Texas cities, Houston in particular, to a level where firms may consider it very cost-effective to move on in. As Fuchs explains, "With such a huge excess of commercial properties, housing, and retail space, tremendous bargains exist here."

The relatively low cost of office and warehouse space "will attract new business," he continues. "Houston is going to be a place where entrepreneurs will be attracted to start up their businesses at the lowest possible overhead. So the very problems that exist here in Houston will be the very source of its revival."

Says Homart's Campbell, "I don't think there's any question that Houston and Dallas are markets where you have to be aggressive on your rents as a landlord to attract tenants. But I think we've had a good year leasing office space in Texas. I would say we've leased between 400,000 and 500,000 sq. ft. of office space in Texas this year. Business seems to be expanding, and people are making deals."

Homart is planning to open The Parks at Arlington this month to be anchored by Sears, Dillard's and Mervyn's, with an additional 150,000 sq. ft. already leased. Homart is also planning a joint venture in San Antonio with Melvin Simon & Associates to open in mid-summer.

Again, Campbell cites diversification as the key to Texas' future. "Increasingly, we see the major markets diversifying and attracting different kinds of businesses, which means they won't have the strong ups and downs kind of changes. The economy will be more stable, and that makes it a better place to invest."

"I don't think it can do anything but grow back again," says Lodwick, noting that growth may take a couple of years. "It's going to be a great retail state down the road." ■

—Debra Hazel

FOLEY'S AVOIDS STATE'S ILLS

DESPITE ECONOMY, IT HAS SURVIVED AND GROWN

FOLEY'S: SECOND IN SALES VOLUME AMONG FEDERATED DIVISIONS

Surviving and expanding in an at best uncertain environment may be the ultimate retail challenge. It is also one that the executive team at Dallas-based department store Foley's knows all too well.

The unexpected drop in oil prices and devaluation of the Mexican peso in 1982 delivered a one-two punch to Texas, Foley's home base. The state itself is still recovering.

Despite Texas' problems, Foley's, established in 1900, has survived and grown—January 1987 brought about the merger of Foley's with Dallas-based Sanger Harris, another Federated Department Store division. Estimated 1987 sales for the resulting division are $1.2 billion, accounting for 11% of Federated's total, according to a report issued by Seidler Amdec Securities, Los Angeles.

Thus, Foley's ranks second among all Federated divisions in terms of sales volume; Ralphs ranked first in 1987 with estimated sales of $2.3 billion and Bloomingdale's ranked third with estimated sales of $1.15 billion.

Prior to 1982, Foley's had steadily been posting double-digit sales increases. When the bad times hit, "Our sales increases began to drop off," recalls Lasker Meyer, Foley's recently-retired chairman. "I remember now that we thought there was a major catastrophe taking place since we weren't showing the kinds of sales increases we had been previously. But then each year after that it got worse."

From 1981 to 1982 sales increased by only 9.2%; they rose only a very modest 4.7% in 1983; the situation improved slightly in 1984 with a 9% gain. However, in 1985, sales remained essentially flat (falling by 0.003%).

This reversal of fortunes couldn't have come at a worse time, as Foley's and its home town competitors were all in the midst of expansion; Foley's itself was in the process of building new stores, Macy's was entering the Houston market, and Mervyn's was continuing its expansion into the region.

Meyer calculates that some 10 million sq. ft. of retail space was developed in the Houston area in 1982 and 1983, *excluding* strip centers.

"So we really had two problems: first, we had layoffs, which affected people's attitudes and their spending. Not only the people who were laid off [were affected; it was also] the people who were worried about being laid off. Second, we had more competition to fight for the dollars that were there," Meyer explains.

Was a period of economic turmoil the time to join forces with another Texas-based Federated division? On this question the opinions of Foley's leaders past and present differ. "Certainly, if you were trying to keep your head above water during a bad economy, you wouldn't plan a merger in the middle of it," Michael Steinberg, Foley's president, acknowledges.

Though the stores shared more than just common ownership, the transition wasn't always easy. "There were many more similarities than dissimilarities. Foley's had many more larger stores; Sanger's had some smaller units. Getting that squared away, with all the distribution challenges that you would have in having a range of stores of dissimilar size has been a major challenge, but I think we're handling it," says Steinberg. While all former Sanger stores are now Foley's, it was the latter who adapted to Sanger's computer system, causing the majority of employees to learn a new computer language.

"However," he adds, "it's important to stress that at the time, the decision to make the merger was correct."

"Actually, from an expense viewpoint, it was a good time," empha-

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The newsmagazine for retail management

JAPAN: LAND OF CONTRADICTIONS

TWENTY FIVE DOLLARS A YEAR (USA)

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SEIBU

JAPAN: A LAND OF CONTRADICTIONS

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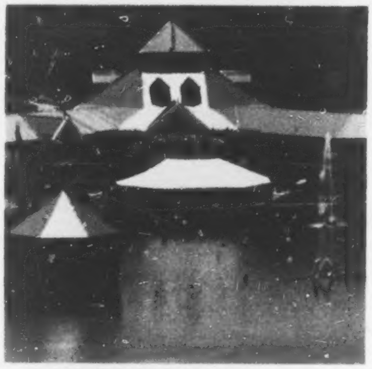

THE TENNESSEE MARKET: THE SECRET IS OUT IN THE OPEN

Many of the nation's retailers are just now becoming aware of the sales potential of the Volunteer State. One of its great draws is a relatively stable economic base. Still, there are regional differences within the state itself—differences incoming developers are keeping in mind. 49

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JAPAN:

LAND OF CONTRADICTIONS

Welcome to Japan. It's a land of great beauty, of rapid economic growth, and, most of all, of dramatic contradictions.

At an annual Sumo wrestling tournament, well-dressed executives come to cheer for their favorite competitors in this ancient sport.

In one of Tokyo's busiest districts, a hotel destroyed by fire five years ago stands vacant amid some of the country's most expensive real estate. Japanese businessmen are too superstitious to want to build on this site. They fear that bad luck would follow them.

On a lighter note, the most popular attraction at one of Tokyo's most fashionable shopping centers is the assortment of fortune-telling booths housed on the top floor. Fortune telling is currently all the rage.

Contradictions indeed show up elsewhere in the retail industry.

›

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SEIBU'S SEED: A REFLECTION OF MORE DIVERSIFIED CUSTOMER TASTES

Most Japanese retailers are far ahead of their American counterparts when it comes to the designs of their stores. They are far, far behind when it comes to implementing operating controls and store brand product development.

"We are just emerging from the stage where U.S. chain stores were in the 1930s," says Shinuchi Atsumi, chief management consultant of the Japan Retailing Center.

He adds that in the next 50 years, "We hope to accomplish what U.S. retailers will have by then taken 100 years to accomplish; we plan to have caught up with those chains and perhaps even surpassed them."

Atsumi is considered one of the most influential figures in Japanese retailing. He personally worked with the founders of Japan's largest chain stores in the start-up phase of their businesses. He continues to consult with them and with others on the implementation of modern-day chain retailing systems. (He is also founder of the Pegasus Club, an organization whose membership is comprised of most of the country's top retailers.)

"While we have already overtaken American retailers in terms of presentation, we have not yet learned other things, such as labor scheduling, for example," he points out, causing labor costs to remain extremely high.

He adds, "We are also behind U.S. retailers when it comes to the merchandise we sell."

Up until the early part of the 1980s, Japan's retailers relied almost exclusively on manufacturers and their input to decide which products would be sold in the stores. This was a strategy that worked, especially since "after World War II, we were suffering from the devastations of the war. People were so hungry for goods that whatever manufacturers placed in a store sold very well," recalls Satoru Urakabe, an executive director of Tokyu Hands *(see story this issue)*. "What we are seeing today, however, is that products don't sell well unless they are geared to please specific customer tastes."

Similarly, Takuya Okada, chairman of Jusco (Japan's third largest retailer with superstores accounting for

Superstores: Something just a little bit different

The term "superstore" refers to many of the units operated by some of Japan's largest retail companies, including Daiei, Seiyu, Ito-Yokado, Jusco and Uny. It's a word familiar to American retailers. But in Japan it means something quite different.

The superstores in general have the following characteristics: food, clothing and a miscellaneous category each account for between 30% and 40% of total store sales; a typical superstore looks to pull customers from a trading area of 100,000 people; and the stores specialize in offering what its operators term "everyday goods," offered at prices considerably less than those of similar products sold at the department stores.

When it comes to grocery sales, superstores maintain a gross margin of between 20% and 21%, according to Shunichi Atsumi, chief management consultant for the Japan Retailing Center. For apparel, the margins rise to between 24% to 28% (compared to apparel specialty store margins of between 35% and 38%). Electronics sales generate margins of 18%, or 4% less than those of electronics specialty stores. However, in home furnishings and housewares the margins are comparable to those of stores which specialize in these categories, says Atsumi, at about 30% and between 24% and 26% respectively. Margins for detergents and toiletries, at 10%, are also comparable to those of other types of stores selling such products.

The superstores may be an endangered species, though, he points out, because of the large customer count they need in order to survive. "As more styles of Japanese chain stores emerge, it will be harder for these stores to stay in business."

the lion's share of its sales), observes, "Since the income of average Japanese people has risen a great deal, there is no longer such a demand for mass products. Instead, more stores are looking for new forms of operation."

He adds, "At our company we are working on such diversified forms as specialty stores and storeless operations, as well as diversifying into such areas as restaurants, leisure-time oriented businesses and international businesses." (Storeless operations refer to door-to-door selling and catalog shopping.)

Jusco's diversification activities are typical of those of many other Japanese retailers. However, at the same time, these companies are trying to attract customers through intensifying their development of store brand products.

Indicative of this trend is the large amount of floor space devoted to showcasing store brand products at the superstores operated by Daiei, Japan's largest retailer. Prominent among these brands are the products created expressly for the Daily Use Department.

"Our policy is to collect various goods into this area that customers use on a daily basis," explains Akira Yakima, a public relations spokesman for the company. All products sold in this department are created and designed by Daiei staff "and then manufacturers make to order exactly what we want. (Other store brands found at the stores include generic products in the food area.)

According to Atsumi, in some merchandise categories certain retailers are already realizing over 50% of their gross profits from store brands developed since 1983.

To create such brands retailers aren't relying simply on in-house expertise. "Now the initiative in deciding what will be sold in the stores is going from the buyer to the consumer," adds Reiko Takayama, secretary-general of the Tokyo-based Shop System Study Society which, as an offshoot of the Ministry of Industry, works with retailers in developing store systems.

Retailers are also paying considerably more attention to customer needs in a variety of other ways. For example, Isao Nakauchi, Daiei's chairman, proclaims, "One of my chief aims is the humanization of industrial space. My philosophy is that in order to meet the needs of the customer, we must be very careful to adjust the hours of operation, the places where our stores are located and the merchandise mix we carry to the needs of the customers in the surrounding market."

Programs are under way at Daiei to implement this philosophy; some sort of restructuring or repositioning program seems to be under way at almost all other major companies as well. For example, at Seiyu Ltd.: "This year we are celebrating our 25th anniversary and we have a program called Action 25 which involves our company reconsidering what changes are necessary for us to succeed in the future," says Etsuji Kobayashi, a public relations spokesman.

"Since the environments where we operate our stores are changing, we

CONSULTANTS: REIKO TAKAYAMA, SHOP SYSTEM SOCIETY; SHUNICHI ATSUMI, JAPAN RETAILING CENTER

INDUSTRY PIONEERS: ISAO NAKAUCHI, CHAIRMAN, DAIEI; TAKUYA OKADA, CHAIRMAN, JUSCO

Management training: Who will run the stores?

In the United States a hot topic of conversation is how to deal with a shrinking labor pool. In Japan, the problem isn't a lack of labor; it is a lack of executives schooled in the specific disciplines needed to manage multi-unit retail companies.

However, as far back as 1967, Daiei, Ito-Yokado and Jusco started to deal with this problem. They recruited a large number of newly-graduated university students, recalls Shunichi Atsumi, chief management consultant of the Japan Retailing Center. Then they put 10% of all the costs involved in operating their stores into the training of these people. As a result, these companies have a generation of retail specialists already in place, he points out.

Other companies have since joined them in going aggressively after this retail talent. In 1984 alone (the latest year for which figures are available), Jusco recruited 463 college graduates, Daiei, 450, and Ito-Yokado, 187, while Seiyu recruited 316, according to the Japan Retailing Center.

Of all new employees hired by Japan's chain stores that year, 29.6% were college graduates; 70.2% were high school graduates.

While all these recruitment efforts are definitely a move in the right direction, Atsumi maintains that they still aren't enough. For example, most companies have job qualification examinations. Only between 10% and 25% of applicants successfully pass these tests and move on.

If Japan's chain store operators are going to meet their long-term growth goals, "the challenge still is to get a hold of efficient people, to train them properly and then to turn them into specialists in different areas of retailing."

STORE BRAND DEVELOPMENT: LISTENING TO THE CUSTOMERS

all must make some slight changes in the way our companies operate and are structured to respond to these changes," agrees Toshio Nishikawa, president of Uny, a major operator of superstores.

One of the major changes retailers are being forced to face is a halt in the growth of consumer spending. Last year it is estimated to have risen by a scant 2%. Given a 1% rate of inflation, this means a 1% increase in real terms.

"This makes it very difficult for retailers to increase sales unless they lower prices," Atsumi points out. However, instead of necessarily pursuing this strategy (and having to cope with the resulting gross margin pressures that U.S. retailers are being plagued with), many Japanese retailers are following the lead of companies such as Sears, Roebuck and J. C. Penney (two companies idolized by many Japanese firms). They are starting to offer a host of services, including financial, insurance and even travel agencies. (Japan's major retail company groups are also launching other businesses outside of this field.)

On the positive side, the laws which have regulated how many larger-sized stores can be built are starting to be removed in many localities. This means that in the future major companies will be able to add more quickly to store count.

At the same time, the percentage of Japanese consumers owning automobiles, while still below U.S. levels, is increasing quickly and is projected to reach 71% by next year. As a consequence, Atsumi foresees rapid growth in shopping center development—something that has proceeded fairly slowly up to now.

"Because shopping centers have not been developed here to the same degree as in the United States, there isn't yet the situation where Daiei, for example, would have threatening competition located almost right next to it," points out Takayama.

He adds, "If there is not so much competition, then stores aren't quite so quick to make major improvements. It's not like in the States where Penney, Sears and Bloomingdale's, for instance, all have to compete with each other in the same center."

"American companies have survived hard competition and they have survived the deadly recession," adds Atsumi. "Japanese retailers haven't yet had to overcome such challenges." ■

—Jacquelyn Bivins

Japan's largest retailers

(according to sales volume for fiscal year ended February 1987)

	Sales (in billions)[1]
1. Daiei	$14.2
2. Saison Group	13.4
3. Ito Yokado	10.0
4. Jusco	8.0
5. Takashimaya	6.6
6. Nichii	5.7
7. Daimaru	5.0
8. Mitsukoshi	4.2
9. Uny	3.9
10. Tokyu Group	3.8
11. Matsuzakaya	3.1
12. Marui	2.8
13. Isetan	2.5
14. Nagasakiya	2.4
15. Hankyu	2.3
16. Izumiya	2.2
17. Kotobukiya	2.1
18. Chujitsuya	2.1
19. Kintetsu	1.8
20. Nada Kobe Coop	1.8

[1] $1 = Y140

Source: Annual reports and Japan Retailing Center

What's 'In' in Japan?: Some of the latest fads and trends

Along with a passion for baseball, American rock music and Disneyland, the Japanese love fads. Current ones (or at least those current approximately a month ago) include:

- Vacation trips to hot springs; and if there isn't time to make the trek, the "essence" of the water from these spas is bottled and is available in the country's trendiest stores.
- Quality stationery products, including the most expensive and comprehensive of leather accessories, led in popularity by personal appointment books. (Filofax, for one, has discovered a fertile market there.)
- Food products with a special twist: milk boiled at a lower-than-normal temperature, for example, or those offering a lower salt and/or sugar content; Products offering "more" of something are also extremely popular. Customers will pay more for these products, according to supermarket executives, even if they don't quite understand exactly what the benefits are.
- Home furnishings in general, with particular emphasis on any products consumers perceive as making their homes more pleasant to live in. (Included in this category are new gadgets such as an automatic bread baker and an appliance that makes it easy to boil water and then maintain it at that temperature for a long period of time.)

POOR RECEPTION PLAGUES TELEVISION SHOPPING

SHOP-AT-HOME NETWORKS HAVE TROUBLE TURNING VIEWERS INTO BUYERS

Only three years after Florida-based Home Shopping Network's ground-breaking nationwide cablecast, TV shopping is facing a mid-life crisis. Viewership for shop-at-home formats hit the doldrums last summer. Even worse, home television shopping programs are not turning their viewers into shoppers. As for those who are buying, they are purchasing fewer products. It may prove impossible to convert the holdouts.

These are some of the sober conclusions of a nationwide Leo J. Shapiro & Associates telephone survey of 1,061 households. The Chicago-based market researcher conducted monthly samplings between April and November 1987.

The shop-at-home via TV services, touted initially by some observers as retail's future incarnate, suffered a shakeout tantamount to an earthquake last year. At best count, 15 television shopping programs, including at least two with high-powered talent, went off the air in 1987.

Co-hosts Alex Trebeck of "Jeopardy" fame and actress Meredith MacRae jumped ship from ValueTelevision, a pricey joint venture among heavy-hitters Lorimar Telepictures, cataloger Hanover House and Fox Television.

Even the ever-effervescent diet and exercise guru Richard Simmons, who replaced the two, could not breathe life into the shop-at-home show, and ValueTelevision was canceled mid-year. Shop Television Network, hosted by 50's teen heartthrob Pat Boone, came and went with equally little notice. Home Shopping Network's try at a broadcast game show flopped, too.

But, according to the Shapiro & Associates study, even last year's shakeout may not leave enough business for the survivors. In addition to Home Shopping Network, the major players still on the scene include Minneapolis-based Cable Value Network (CVN) and West Chester, Pa.-headquartered QVC (Quality, Value, Convenience) Network.

The audience for home shopping television shows is shrinking, says the Shapiro poll. Since last July, when viewership for TV shop-at-home programs peaked at 38% of all households, there has been a steady decline in viewers. By November, the number of families reporting that they had watched one of the TV shopping shows within the week before fell to 26%.

TV shopping:
Lots of watchers, few shoppers

	% watching	% buying
Income		
Over $30,000	35%	18%
$20,000-$30,000	30	16
Under $20,000	32	10
Occupation		
Professional	26%	15%
Technical	30	15
Manager	39	14
Clerical	39	15
Sales	29	19
Craftsman	33	13
Service Worker	29	17
Military	18	9
Retired	29	12

Source: Leo J. Shapiro & Associates

Time spent watching shop-at-home television is dipping, too. Viewing hours hit their peak last July, when the average family reported watching 3.3 hours of TV shopping programming in the previous week. By November, average viewership had fallen 12% to only 2.9 hours per week.

The number of viewers who actually become customers, says Leo Shapiro & Associates president George Rosenbaum, is shrinking as well. "The belief that if you could get audience that you would eventually be rewarded with buyers is no longer justified," he says.

In the final month of the nationwide poll, for example, the number of first-time television shoppers dipped to about 5% of all households. This number has decreased steadily since last May, when it stood at a healthy 9%.

"There is no growth in the number of people who are converting from being a member of the viewing audience to becoming a member of the buying audience," the market researcher says.

"To live off of this small number of buyers," he says, "shopping programs are going to try to sell them more—and more profitable—merchandise and try to get more dollars from them."

The average purchase from shop-at-home television shows last year was about $48, according to the Shapiro study.

Merchandise purchased via TV shopping networks in more recent months, however, has less variety than earlier measurements in the survey period.

A year ago, for example, the survey

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RU-6107
14K CZ
Pend
Set
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$99.99
$33133
4435
Candelabra
Set
Retail $229.00
$99
$49
1-800-422-2454
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CVN 1-800-422-2454 CVN
1-800-422-2454

STILL ON THE SCENE: MINNEAPOLIS-BASED CABLE VALUE NETWORK IS A MAJOR PLAYER LEFT IN THE GAME families named 24 different merchandise categories that they recently had bought from home shopping programs. The items customers named ranged from tackle boxes and socket wrenches to gold and silver and the seemingly ubiquitous cubic zirconium jewelry.

By November, however, recent home shopping customers cited only 11 merchandise categories. Most named were watches and jewelry.

"As they [the home shopping networks] narrow their assortments," Rosenbaum says, "there are fewer buying opportunities and fewer buyers."

Almost half of home shopping viewers, according to Rosenbaum, never buy a single product from any of the networks. They are the electronic equivalent of window shoppers. Rosenbaum calls them "wasted audience."

"The big challenge for the industry is to survive off of the small number of buyers that is not growing in number," says the Shapiro & Associates president.

"The opportunity for the industry," he adds, "is to make money off of the wasted audience, and the current offerings show no promise of solving that problem."

Part of the trouble, Rosenbaum notes, is that the biggest share of wasted audience belongs primarily to lower income families, who simply cannot afford to give in to home shopping's fevered "buy it in the next 60 seconds or miss it forever" sales pitch.

"It's very hard to get a discretionary 60 bucks in five minutes," observes Rosenbaum. "Many wasted audience viewers have to get their paycheck first and then see how big the electric bill is going to be before they can buy," he says.

While almost one-third of all households with annual incomes under $20,000 reports watching shop-at-home television, only 1 in 10 actually ends up buying, according to the study. This compares with the nearly 1 in 5 households with incomes above $30,000 that reports buying *(see accompanying chart).*

Sixty-one percent of clerical workers who watch shop-at-home television programs have never bought from one of the shows, according to the Shapiro study.

This compares with the nearly 54% of professional viewers who have shopped the programs. Similarly, 50% of technical workers are paying customers.

How can TV shopping networks turn their electronic window shoppers into paying customers? Rosenbaum offers two suggestions for the industry.

"The solution to selling the wasted audience may be to give them a planned purchase, something that they need and plan to buy anyway, like insurance," he says. "Or to give them a medium of buying—such as a catalog—that is not as impulsive and surprising as what they see on television."

The irony in Rosenbaum's solution to TV shopping's midlife crisis is that it sounds very much like something even more familiar—something called Sears, Roebuck. ■

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The newsmagazine for retail management
May 1988

SPECS '88 WRAP-UP

The structure of America's department store industry is being radically transformed. Shopping center developers, by buying up major anchor stores, are assuming the dual roles of landlord and tenant. The regional mall business will never be the same.

Robert Campeau,
Chairman, Campeau Corp.

Campeau in control at Federated

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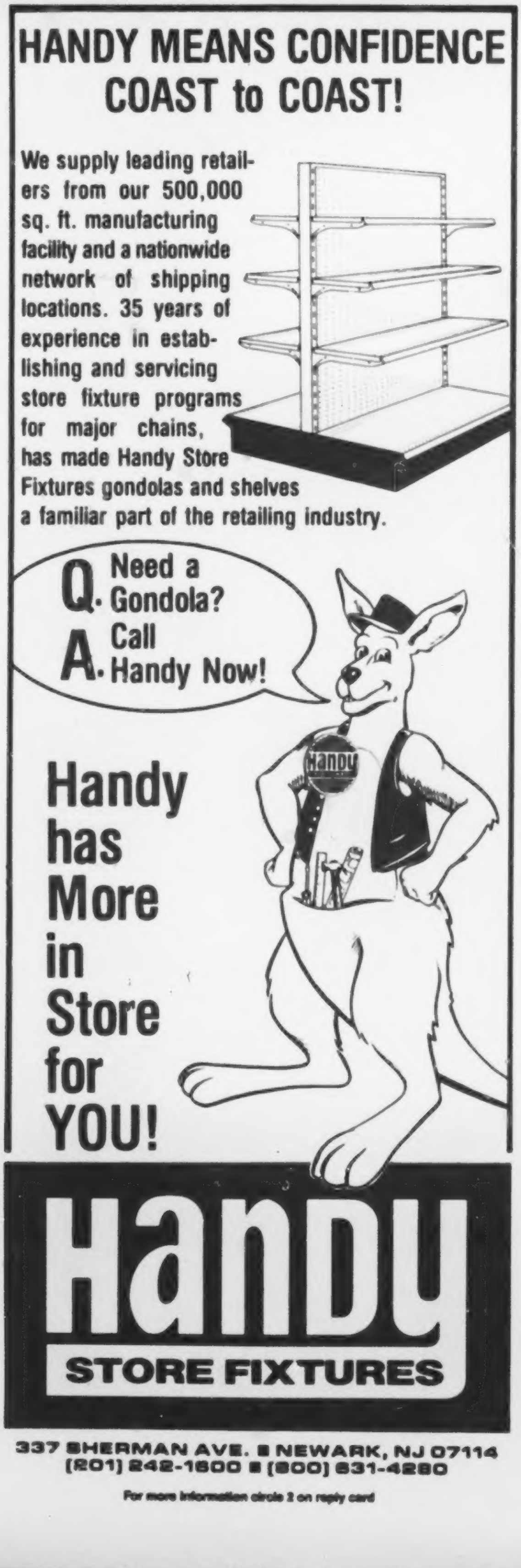
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COMFORTER
$18⁴⁸
PILLOW
$2⁹⁶
BLANKET
$17⁴³
BOUNTY
2 $1³⁰

HYPERMART USA MAKES ADJUSTMENTS

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SHOPPING CENTER AGE

GUESS WHO'S COMING TO THE STRIP?

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SUPERMARKETS RIDE ON DEBIT CARD BANDWAGON

BUT GENERAL MERCHANDISE RETAILERS TAKE A MORE CAUTIOUS APPROACH

It is still something of an oddity. A shopper at a California supermarket pays for her groceries without cash, without a check and without even a credit card.

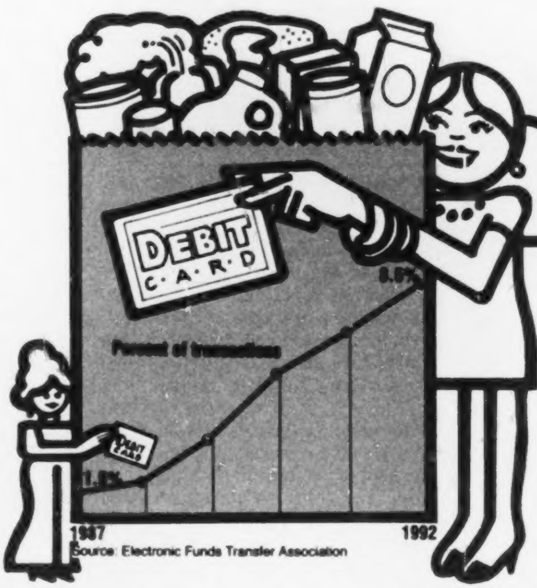
Instead, she swipes her bank debit card—the same one she uses to get cash from the automatic teller machine down the block—across a magnetic reader, punches in a personal identification number (PIN) and the purchase price is deducted automatically from her checking account.

Though Dublin, Calif.-based Lucky Stores has allowed customers to use this method of payment in its 350 supermarkets since 1986 (*see accompanying story*), debit card use is still a relative retail rarity. Five years from now, however, nationwide debit card transactions at retail are forecast to total 128 million per month.

According to the Electronic Funds Transfer Association (EFTA), more than 1.5 billion point-of-sale transactions in 1992 will use debit cards, instead of more traditional forms of payment. Today, only 1.5% of all retail POS transactions use debit cards, says EFTA. In five years, debit transactions will account for 8.5% of the total.

Despite that growth, however, debit cards will not invade general merchandise retailing with the same ferocity that they will charge into supermarket and convenience store formats, notes EFTA.

Debit card use at POS



Source: Electronic Funds Transfer Association

These are some of the preliminary conclusions from a continuing research project conducted for EFTA by Torrance, Calif.-based Benton International. Thus far, the study has polled supermarket, gas station and airline executives, quizzing them on estimates for future debit card use.

Speculation about debit cards' future is growing perhaps even faster than customers are using them. Thanks to bank automatic teller machines (ATMs), customers are now familiar with the debit card concept. The jump to using them at retail POS, electronic funds transfer boosters say, does not require a big leap of imagination.

Chase Manhattan Bank has already climbed onto the bandwagon. Chase, which offers a debit card to retailers, tops advertising for its new product with a headline reading: "In the 1950s, a small piece of plastic revolutionized retailing in America. In the 1980s, it's happening again."

The banks have a vested interest in the success of debit cards. After years of touting the use of checks, the financial institutions are suffering from high costs incurred in processing those paper transactions. Debit cards are the best way for them to reduce those costs.

Some banks, including Midway National Bank of St. Paul, Minn., and the Iowa-based SHAZAM regional system, expect to offer debit and credit card combinations, called com-

Retailers pay their bills electronically, too

At the annual National Retail Merchants Association (NRMA) convention in New York, retailers chuckled when vendors suggested that quick response systems and electronic data interchange (EDI) would result in quicker payment of vendor invoices.

The not-too-private joke was that department stores—rightly or wrongly—are often criticized for slow payment. Any system that would upset their traditional leisurely payment pace, the joke went, was obviously doomed to failure.

Retailers, nonetheless, have been quick to cash in on the payback from electronic fund transfer (EFT) systems. Altogether, about 350-400 companies are using corporate trade programs that electronically remit payments and supporting invoice data directly to vendors.

Chicago-based Sears, Roebuck, the nation's biggest retailer, began using the automated clearing house (ACH) network for fund transfer to vendors in mid-1983. About 150 vendors are signed up on the Sears plan. In addition, Sears uses the network for certain payroll and pension payments.

The payoff for retail companies using electronic corporate trade programs is less costly check processing and mailing. Transmitting funds electronically, however, does not mean that retailers are paying bills any quicker. Invoices are paid with the same speed—or lack of it—as always. All that changes is the form of payment.

LUCKY STORES: PROCESSING 30 MILLION DEBIT CARD TRANSACTIONS THIS YEAR

bo cards, before year's end.

With combo cards, a customer can use the same card either as a traditional credit card or as a debit card, in which case the purchase price is deducted from her bank account electronically. The customer makes the decision whether to go credit or debit at the time of purchase.

Some of the big oil companies—Amoco, Exxon and Mobil Oil—are offering combo cards already. In these instances, the advantage for the customer is the gasoline industry's two-tier pricing system: Debit card users get to buy gas at the same reduced price as cash customers.

Atlantic Richfield, in still another wrinkle, accepts some bank debit cards at its California AM/PM convenience stores and ARCO gasoline stations. At present, ARCO is processing nearly 18 million debit card transactions annually.

Visa and MasterCard, meanwhile, are creating ENTREE, what they hope will be a universal service mark for their debit card switches. "When MasterCard and Visa get behind a program like ENTREE," says Robert A. Mooney, EFTA chairman and president of Dallas-based J. C. Penney Systems Services, "there's going to be a lot of promotion with that, and people are going to start to understand what debit cards are all about."

According to the EFTA/Benton study, there are already 160 million debit cards in circulation. The cards are used most frequently to operate bank ATMs. By 1992, however, the research indicates that there are likely to be 250 million debit cards in circulation, or about one debit card for every single American.

On average, according to the research report, a typical family now has 9.6 financial transaction cards. In 1992, the typical household will have 11 financial transaction cards. And while only 33% of current debit cards actually are used in an average month, five years from now 55% will be in active use, the study says.

But for all the flurry of activity swirling around debit cards, the transition will not be quick, and it will not affect all retail formats equally.

"First of all, consumers are fairly happy with the payment alternatives that they have," Mooney says. In addition, retailers are facing a "chicken and egg" problem with debit card adoption. Retailers are asking themselves, "Do we want to go out and develop an interface with each debit card provider and spend $100,000-$200,000 and then wait for the business to grow?" according to Mooney.

Penney, along with virtually all the big department and discount stores, has decided to wait for customer demand to grow before making the investment. Mass merchandisers, says Mooney, will be among the last to convert to debit cards. "The consumable goods organizations—supermarkets, convenience stores and fast-food outlets—typically have been paid in cash, and this is where the debit card is having an impact."

"Even if you think of supermarkets alone, there are probably more transactions in supermarkets than all other transactions in retail establishments of any kind in the United States," Mooney says. "If debit cards take off in the supermarket industry, you could very quickly see hundreds of millions of transactions." ■

Lucky at cards: A successful customer service program

"It's one damned successful program." Without mincing words, that is how Dublin, Calif.-based Cetron Transaction Services marketing director Rawleigh Fjield sums up Lucky Stores' experience with debit cards. The program has proved so successful that the California supermarket chain late last year created subsidiary Cetron to sell its debit card technology to other retailers.

Lucky began its experiment with debit cards in 1984, with chainwide implementation coming in 1986. This year the supermarket should process more than 30 million debit card transactions, Fjield says.

"If truth be known to the real world," she says, "the program at Lucky was developed more as a merchandising and marketing tool than for any of the other benefits usually associated with debit cards."

Especially in the highly competitive southern California market, Lucky was looking for a way to distinguish itself from the competition. Initially, it created "Easy Check-Out," Lucky's name for the debit card program, as part of a customer service strategy.

Debit cards have picked up some surprising fans at the supermarket. Senior citizens, in particular, seem attracted to Lucky's Easy Check-Out program, Fjield says. Older shoppers are using their debit cards at the checkout as sort of "human ATMs." Seniors uncomfortable with using bank automated teller machines instead are going to the supermarket to get cash, she says. While they are there, seniors do some shopping, too.

USDA STICKS TO ELECTRONIC FOOD STAMPS TESTS

DEBIT CARD-BASED SYSTEM WINS PRAISE FROM STORES, BANKS AND USERS

The two-year test was a rousing success. So when the United States Department of Agriculture's (USDA) pilot study of debit card-based food stamps ended, Pennsylvania politicos decided to continue the program on their own. It looked like a good bet.

Local retailers liked the pilot study. So did the banks. Even food stamp recipients sang praises for the trial that replaced paper food stamps with debit cards. The only problem: The electronic food stamp program cost the state, on the average, nine times more than the old paper-based system.

That has not deterred Pennsylvania authorities, who are flirting with the idea of expanding electronic food stamps statewide. Neither has it stopped the USDA from authorizing an additional nine electronic food stamp pilots across the country.

"Electronic food stamps are very much a part of the future," says Michael Gorshe, store operations director for Cincinnati-based Kroger Stores.

Much of the enthusiasm for debit card-based food stamp programs stems from the belief that economies of scale ultimately will make electronic food stamps an attractive, if not inevitable, alternative.

The Pennsylvania experiment, beginning in October 1984, involved only 3,400 food stamp recipients in Berks County, which includes the city of Reading. Since then food stamp participants have been receiving debit cards instead of the common paper Department of Agriculture scrip.

At the start of each month, Pennsylvania authorities credit each recipient's electronic food stamp account with his usual benefit dollar amount. When shopping at any of 140 participating retail outlets, electronic food stamp customers use state-issued debit cards to make qualified food purchases.

AT POS: FOOD STAMP CUSTOMER ENTERS PIN NUMBER

At the point-of-sale, food stamp participants pass their card though a magnetic reader to verify it as an approved account, then enter a personal identification number (PIN), which also is verified.

With this go-ahead authorization, the grocery clerk enters the purchase total on a terminal connected to the state's electronic benefit transfer (EBT) computer. The EBT center computer then checks the recipient's food stamp account, subtracts the purchase price, and credits the retailer's account. (Retailers get their funds overnight through the Automated Clearing House.)

Finally, the terminal prints out a receipt, showing both the current purchase total and the amount remaining in the customer's electronic food stamp account.

The Berks County/USDA demonstration ran from October 1984 through December 1986, when Pennsylvania took over the project itself. Since July 1987, the state has run the food stamp program on-line with a 2-processor Tandem TXP using MTech ACTION2000 EBT software.

The USDA paid for additional POS hardware at the retail level. Altogether, investment in the initial USDA demonstration project cost federal and state officials about $3 million.

Though Alan Harris, Tandem's state and local governments marketing manager, says that Pennsylvania's debit card-based system's costs have been trimmed in the last year, other sources report that the electronic food stamp program is still significantly pricier than the traditional program. On the average, according to the USDA, food stamp programs cost the government about three dollars per household to operate.

For the supermarket retailer, however, electronic food stamp programs are an unqualified success, Harris says.

With a debit card-based food stamp program, says the Tandem official, retailers do not have to tally and deliver coupons to the bank at the end of the day, saving labor costs. In addition, supermarkets can access their funds though the Automated Clearing House overnight.

Also eliminated is the need to return cash to food stamp customers who make small purchases with large value coupons. Checkout time is reduced.

In addition, Harris says, food retailers accepting food stamp debit cards can track transaction information by shift or processing date, preauthorize the level of access to transaction information, and gain complete food stamp transaction reports.

That adds up to savings for the supermarket operator, he says. According to a USDA-commissioned study done in 1987 by Boston-based Abt Associates, debit card-based food stamp programs such as the Berks County project on the average cost retailers $13.32 per $1,000 of food stamp transactions. For comparison, paper coupons cost supermarket retailers an average $17.74 per $1,000 in food stamp sales (*see accompanying chart*).

In surveys that Abt conducted in Berks County, it discovered that 66% of retailers, banks and food stamp recipients all gave positive votes to the electronic distribution system.

"The retailers' main reason for preferring EBT," says the Abt report, "is that it reduces the irritating post-sale handling effort required for coupons. They also value what they perceive as substantial reductions in fraud and abuse with EBT."

Food stamps: Relative costs

	Paper coupons	Debit cards
Retailer's cost per $1,000	$17.34	$13.22
Banks cost per $1,000	5.96	0.40
Recipients cost per month	2.21	0.26
Monthly diversions per case	3.97	1.13
Monthly losses per case	0.13	0.03

Source: Abt Associates

Banks, the report says, are pleased to have their food stamp issuance role eliminated. Recipients, meanwhile, believe that the debit card system is easier to use than the coupon system, according to the Abt study.

It is government administrators, however, who ultimately must be convinced that electronic food stamp programs will save money for the taxpayers.

There seems to be little doubt in government administrators' minds about the benefits of the electronic food stamp experiment.

States eliminate the cost of distributing, storing, inventorying and destroying coupons. They eliminate theft, trafficking and unauthorized purchases. They can change benefit levels instantly. Each function, however, comes with a price. In the Berks County test it was a high one.

Tandem's Harris says, and the Abt report concurs, that the Berks County programs costs are inflated above what a full scale EBT system would cost if broadly instituted.

The limited scope of the program, according to Abt, contributed to an increase in unit costs. In addition, because the test was originally supposed to run for only one year, equipment was obtained through relatively expensive, one-year leasing arrangements.

Since the program was being created from scratch, the report continues, staff assigned was more skilled (and more highly paid) than would normally be the case in a routine, ongoing program.

"Unit costs," Abt says, "clearly would be lower in a large-scale electronic food stamps system."

Nationwide, about 1 in every 13 Americans, or 19 million people, receive food stamps from the USDA. The program costs the government approximately $12 billion annually—reason in itself to search for cost-cutting corners.

Also under consideration by the USDA is the use of off-line "smart cards." But with the public's growing acceptance of debit cards, on-line systems look like the favorite to win out.

An advantage for the debit card system is that some supermarket retailers, most notably, Dublin, Calif.-based Lucky Stores, already have debit card systems in place for cash customers.

Electronic food stamp debit cards could be piggy-backed onto existing store systems, reducing start-up costs. The expense of some terminals would be shared with other users.

"Operators of commercial systems would welcome the piggybacking because it would increase their transaction volume and reduce average costs," says the Abt report.

If electronic food stamps are to become reality, however, they must hurdle still one more obstacle. The 25-year-old legislation that created food stamps never envisioned a paperless, electronic age. It authorizes the distribution only of paper coupons.

Congress itself will have to authorize electronic payments. ■

WANT TO BUY IT? CALL TOOTIE

HSC'S VRU KEEPS PHONES RINGING

If a shopper were to hear the name Tootie, she might think it was some new-fangled child's toy or maybe a new flavor of bubble gum. If, however, she is a regular viewer of Home Shopping Club, she would recognize the name instantly.

Tootie is a voice response unit (VRU) developed by Clearwater, Fla.-based Precision Software Inc., which was recently acquired by Home Shopping Network, HSC's parent company. (HSC is a 24-hour television show during which viewers can shop via telephone.)

In fact, when a shopper calls HSC's toll-free number, hearing Tootie's voice is music to the ears of these television mail order junkies.

"Welcome to the Home Shopping Club. This is Tootie. You can talk with me by pushing the buttons on your touch-tone telephone."

It was developed primarily to make order-taking faster and more efficient for the club's some two million members who tune in regularly.

In fact, the membership of the show has taken on an explosive growth. At the end of 1986 the count was 520,000. At the end of 1987, it more than quadrupled to 2.6 million. (HSN's sales for the fiscal year ending Aug. 31, 1987 increased to $582 million, up 363% from the $160.2 million reported in the same period last year. Net income also increased to $29.5 million, up 174% from $17.0 million last year.)

As a result of this increase, HSN's management was searching for an alternative to its human telephone operators. The lack of floor space in the studio and the lack of personnel made it nearly impossible to handle the deluge of calls it was receiving daily.

Tootie was introduced in July 1987 to solve some of HSN's problems.

Since then, Woody Boyd, president of PSI, says that Tootie has been able to handle up to 50% of the incoming orders, thus reducing HSN's labor costs.

Tootie is comprised of 64 microcomputers, each of which can handle up to 24 calls simultaneously. These microcomputers are linked directly to a mainframe system also located in Clearwater. (The average cost to install a VRU system that has fewer than 12 telephone lines is $3,000 per line. At quantities above 200 lines the cost decreases to $1,600 per line.)

"In the beginning, our goal was to have 25% of the calls handled by Tootie. We never thought we would even reach 40%. There are even peak periods when Tootie can take up to 75% of the orders," confirms Boyd.

In addition, a VRU like Tootie saves the company between 30% and 50% on its telephone bills. This is because the average call taken by Tootie lasts approximately 55 seconds. Unlike a human operator, the customer responds only to the questions asked, and cannot remain on the phone longer, due to irrelevant conversations with the operator.

For example, after Tootie intro-

DO HISPANIC SHOPPERS USE COUPONS?

MANUFACTURERS AND RETAILERS DON'T ALWAYS AGREE ON THE ANSWER

For one Mexican-American grocery store operator in Los Angeles, it all came down to $1.40. This time, the angry grocer decided, he would take his multi-million dollar adversary to court.

The independent grocer filed papers with the local small claims court. In his complaint, he charged that one of the country's biggest cereal manufacturers repeatedly refused to honor the cents-off coupons customers had redeemed at his neighborhood food store.

As evidence, the grocer submitted coupons—totaling $1.40—along with invoices proving that he actually had sold the merchandise.

To the local grocer's bewilderment, the cereal company jetted a lawyer cross-country to represent its interests at the court proceeding. The judge, however, was unimpressed and ruled in the local food retailer's favor. The cereal maker paid him $1.40.

What happened the next time the Mexican American grocer tried to redeem coupons from the same manufacturer? They were sent back unpaid.

"Because there has been this idea that Hispanic shoppers do not redeem coupons," says Gloria Alvarez, executive director-operations for Los Angeles-based Mexican American Grocers Association, "the major suppliers would not reimburse [Hispanic grocers.]"

Do Hispanic shoppers use manufacturer cents-off coupons? Common wisdom agrees with the cereal maker and says that they do not. Others, especially Latinos themselves, say that Hispanics are enthusiastic coupon redeemers.

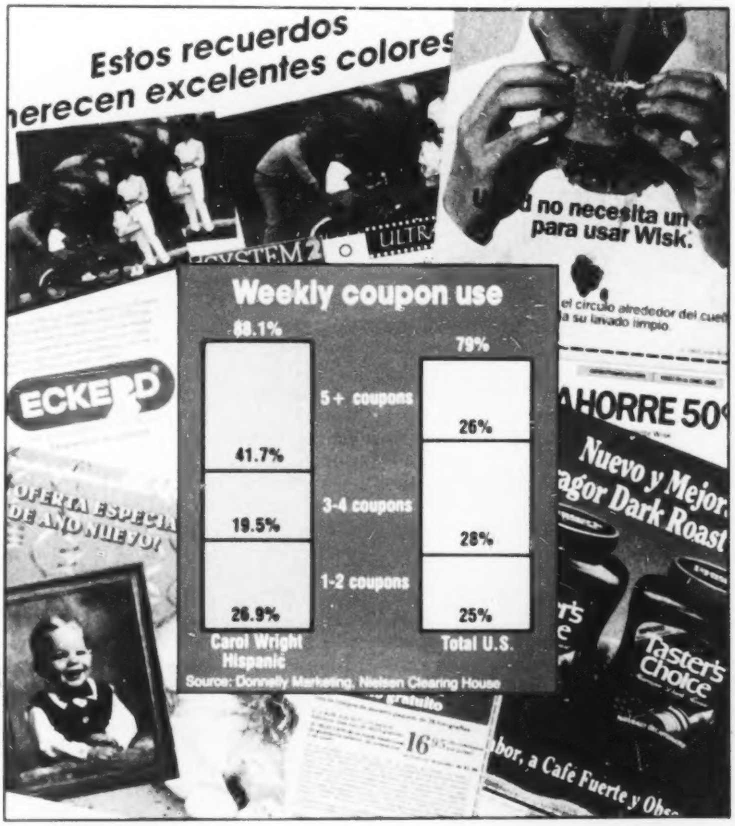
With Hispanic-American shoppers in an average week spending more than $500 million at grocery stores nationwide, finding the right answer to the coupon question is no mere academic exercise.

Latino shoppers, according to the Simmons Study of Media and Markets, buy up to four times as much baby food and fruit nectars as the average U.S. family. They buy twice as much canned spaghetti and pancake syrup (*see accompanying chart*). Yet manufacturers have been slow in using coupons to generate Hispanic brand loyalty.

"Some Hispanic consumer groups are beginning to question whether coupons are really a subsidy for the Anglo consumer," Alvarez says.

"The manufacturer is subsidizing [Anglo] food purchases, but not making coupons available to the Hispanic consumer. Is this prejudice, is this racism, is it ignorance? I don't know," she says.

According to Chris Linskey, vp and general manager at El Monte, Calif.-based Tianguis, Vons' two-store Hispanic supermarket subsidiary, the lack of couponing to the Latino community is a reflection only of that customer's lack of interest in using coupons.



Weekly coupon use

Source: Donnelly Marketing, Nielsen Clearing House

"We've had serious efforts and did some good calculative tests last year for ourselves, and there is not a great deal of coupon usage by Hispanic customers in Los Angeles, regardless of the vehicle," Linskey says.

On the average, coupon redemption rates at Tianguis stores are only 6% of those at traditional Vons supermarkets, he says.

"We do not do well with the Carol Wright Hispanic coupons, we don't do well with our own coupons," Linskey says.

"The problem is not with coupons, the problem is with their dependency on any kind of print publications," he says.

"They [Hispanics] don't have magazine subscriptions, they don't have newspaper subscriptions, they don't utilize the newspapers very much," Linskey says.

"That is only a polite way of saying, 'They can't read,'" counters Anthony Mercado, director of Donnelley Marketing's Carol Wright Hispanic coupon-by-mail marketing program. "Linskey is stereotyping," Mercado responds.

"Yes, they say that Hispanics do not coupon," Mercado says, "well,

Hispanics spend more on groceries
(100 = U.S. median)

Product	Index
Baby food	423
Fruit nectars	396
Canned spaghetti	209
Pancake syrup	150
Mayonnaise	137
Dry mix salad dressing	136
Soft drinks	133
Yogurt	133
Margarine	126
Hot dogs	125
Frozen pizza	125
Corned beef	115
Canned soup	111

Source: Simmons Studies of Media & Markets, Strategy Research Hispanic Market Study

Carol Wright Hispanic mailings reach 3 million Hispanic households out of a possible 5.1 million. The fact is, Hispanics are enthusiastic redeemers of coupons. Eighty-eight per cent of Carol Wright Hispanic recipients use coupons, compared to 79% for the regular mailing," Mercado says.

In fact, the Donnelley Marketing exec says, Hispanics in his samples are more likely to be heavy coupon users than are Anglo families. Nearly 42% of the Carol Wright Hispanic list uses five or more coupons weekly, Mercado says.

This compares to only 26% of the total U.S. population that reports using five or more coupons a week, according to Donnelley research (*see accompanying chart*).

Mexican-Americans, according to the Carol Wright exec, are the heaviest coupon users among U.S. Hispanics, followed by Cuban Americans and Puerto Ricans living in the 50 states.

"Here is a population that is spending half a billion dollars each week on groceries," he says. "I cannot believe that they're not sensible enough to go out and use some method of discounting in order to supplement those groceries. Some of it is just common sense," says Mercado.

Tianguis' Linskey agrees that the Latino customer is a value-conscious shopper, but does not think that couponing is the only method of smart shopping.

"The Hispanic customer is much more in tune with value and being a smarter shopper than the Anglo customer because [Hispanics are] working with a restricted income," he says.

"Coupons are something that seem effective in the general market, they're not effective here. It's only one marketing tool," Linskey says.

"Rather than beat your head against the wall and try to make something work that there's a lack of interest in, there are other marketing opportunities, so that's what we concentrate on," he says.

In-store demonstrations, says Linskey, move twice as much product in Tianguis supermarkets as Carol Wright coupons. In addition, Tianguis uses bilingual direct mailings as well as all-Spanish radio ads. Soon, it will begin airing its first television commercials, also entirely in Spanish.

Mercado, meanwhile, maintains that couponing to the Hispanic customer is still an effective marketing tool for both the retailer and the product manufacturer.

"Couponing brings a new level of sophistication to Hispanic marketing," he says. "In the past we've had radio and TV, and I think we've been content with that, but now we have couponing that is a measureable vehicle."

It is the ability precisely to measure coupon redemption rates that makes Mercado confident that he is reading the Hispanic market's interest in coupons accurately.

Lever Brothers, he says, reports that identical national coupons for Wisk and Surf detergents and Dove soap have redemption rates in Carol Wright Hispanic mailings of 17%, 14% and 16%, respectively—in each case somewhat higher than the redemption rates in the regular Carol Wright mailings.

Eighty-four per cent of Carol Wright Hispanic coupons, Mercado says, are redeemed in supermarkets. Another 28.1% are used in drug stores, 20% in neighborhood grocery stores and 11.6% in department stores (*see accompanying chart*).

Independent grocery stores still have the most problems getting coupons redeemed by manufacturers. "There's a tremendous fear of not being reimbursed," says the Mexican American Grocers Association's (MAGA) Alvarez.

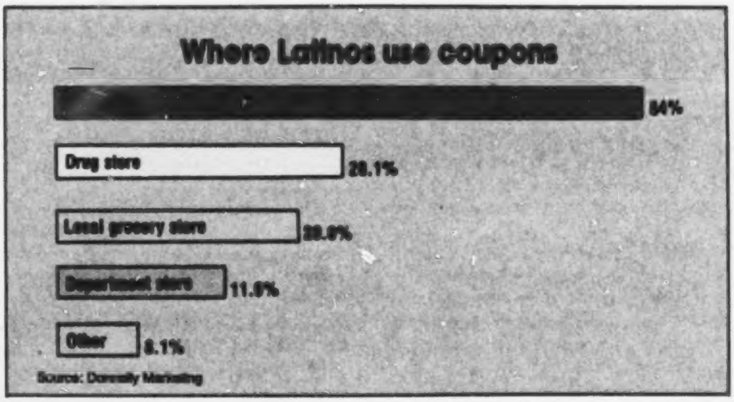
"If they [manufacturers] expect the retailer to act as their sales agent for their product and the coupons that are distributed, then they need to support the retailers and reimburse them for the coupon that they take," she says.

To counteract some of the resistance from manufacturers, MAGA is starting a coupon clearing house of its own. In addition, it has a four-year-old program to encourage coupon use in the Hispanic community.

In the meantime, Alvarez sums up communication from manufacturer to independent Hispanic grocers this way: "Your store's name is Gomez Market, and we don't believe that Gomez Market does any kind of volume, because you can't do volume with that kind of name. And from the little bit of research that we have seen, Hispanics don't redeem coupons, therefore you are not entitled to this money."

And 50%-60% of the time, Alvarez says, the manufacturer then just sends the coupons back. ■

Where Latinos use coupons



Source: Donnelly Marketing

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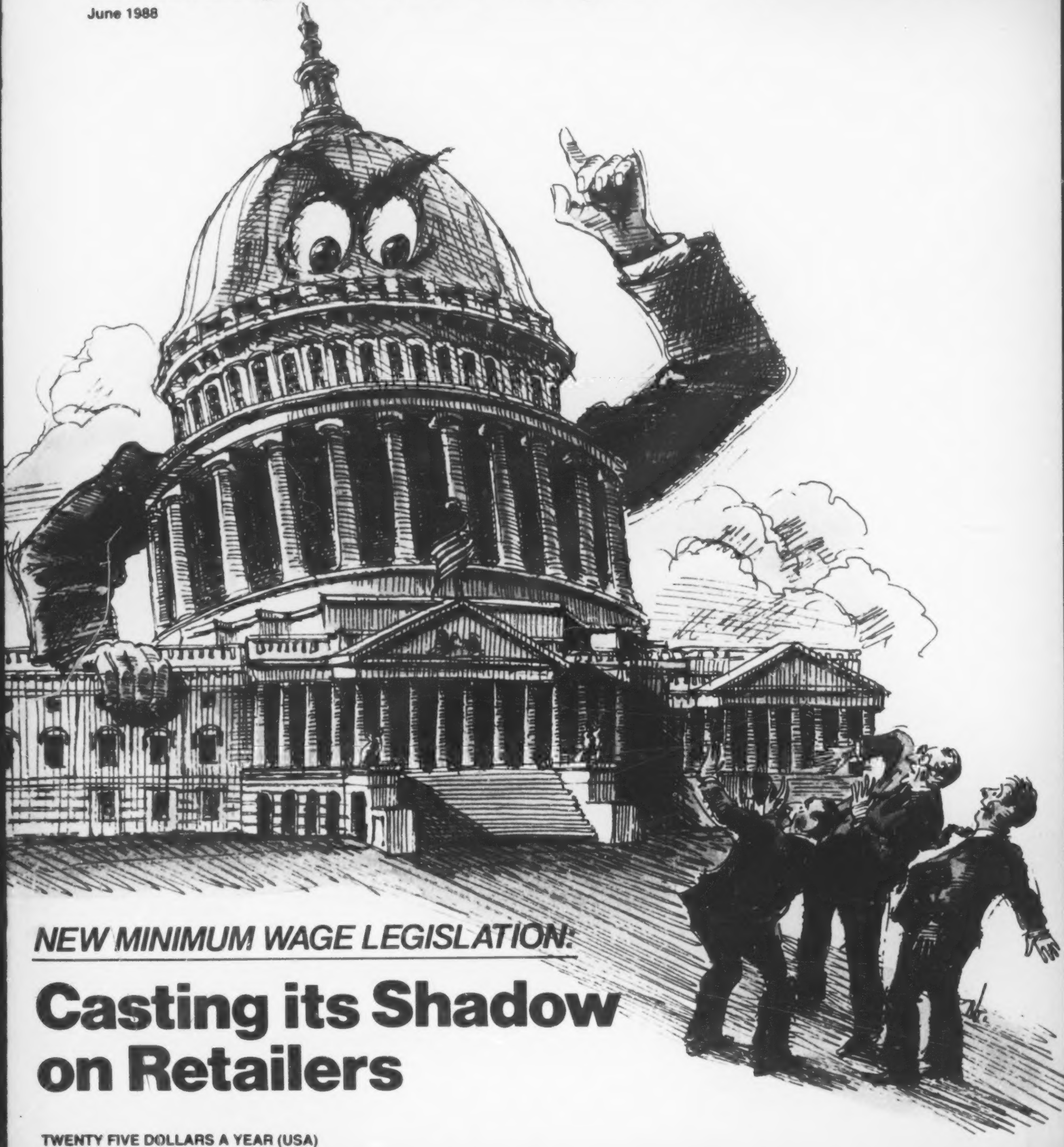

NEW MINIMUM WAGE LEGISLATION:

Casting its Shadow on Retailers

TWENTY FIVE DOLLARS A YEAR (USA)

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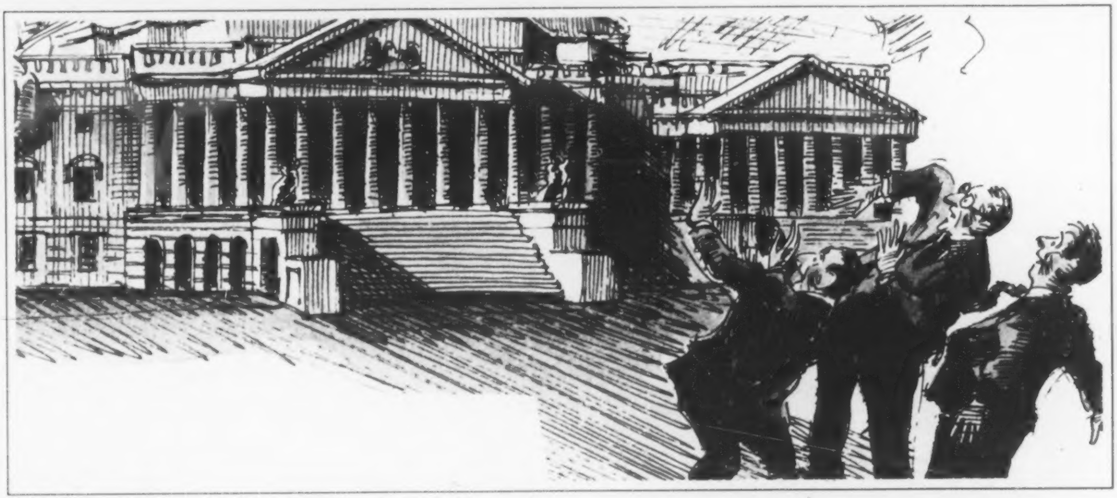

MINIMUM WAGE HIKES THREATEN RETAIL

Proposed legislation could force retailers to cut 364,000 jobs by 1990, according to a study commissioned by the American Retail Federation. Opponents of laws raising the pay floor argue that not only will a minimum wage hike cost jobs, but it will lead to a new round of inflation as retailers and manufacturers pass on the mandated higher labor costs. 22

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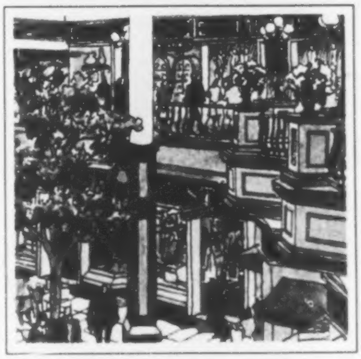

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INCENTIVE PROGRAMS TURN TO NEW CHANNELS

IMPENDING RETAIL LABOR SHORTFALLS PROMPT CREATIVE RECRUITING TACTICS

There's no longer any doubt. The American retail industry is running out of people to work in its stores. "Help wanted" signs appear to be a permanent fixture on the retail landscape. And the situation is likely to grow worse.

In the period 1984 to 1995, a total of 1,691,000 new jobs are expected to be created by retail companies (the current wave of mergers and acquisitions notwithstanding). The people to fill those jobs, however, aren't expected to be on hand.

By the year 1990 the shortfall in the labor supply, particularly part-time sales help, will become acute, according to statistics compiled by Dublin, Ohio-based Management Horizons.

As of 1981, the retail industry's single largest employee group—16- to 24-year-olds—accounted for 32.1% of all sales workers. Based on this percentage, by 1990 the industry is likely to need 645,000 such workers; population figures show that there will only be 515,000, resulting in a 20.2% shortage *(see accompanying chart)*. In total, the retail industry is projected to need 2,797,000 people to work in its stores by 1990; there are likely to be only 2,650,000, a 5.2% shortfall.

A number of retailers are already feeling the squeeze. They are becoming more creative in hiring methods. Many retailers in New Jersey, for instance, have hiring tables set up in their stores. Even when these are not manned, literature and job applications are available.

Where there are no workers to be found in the immediate area, some retailers are resorting to costly vanpooling. Many companies are also reexamining their pay schedules, particularly with the imminent increases expected for minimum wages.

Even when these companies succeed in hiring workers their problems are far from behind them. As employee-starved retailers become more competitive in their hiring practices, there's no guarantee that a worker hired by one store won't abruptly jump ship for another. Therefore, maintaining morale among the store's labor force becomes a top priority.

Cincinnati-based Makro, for example, runs in-store contests encouraging employees to make suggestions about how to increase efficiency. Winning ideas are rewarded on a monthly and quarterly basis; annually one company employee is awarded an all-expense paid vacation. "This program increases participation by hourly employees," says Dave Nadherny, Makro's vp-personnel.

Gifts and trips are also being of-

Canadian retailers respond to dwindling labor supply

Like their counterparts south of the border, Canadian retailers face the prospect of a dwindling labor supply. They are also concerned with how to maximize the customer service provided by the employees that they do manage to find.

That concern is what prompted a recent study by KPMG Peat Marwick, Toronto, entitled "Linking Compensation to Customer Service." The results were presented at the recent annual convention of the Retail Council of Canada. A total of 24 Canadian retailers participated in this survey; the average company sales were $110 million (Canadian) in 1987.

Among the research findings:

- **45% of the respondents use non-cash programs to recognize outstanding employee performance.**
- **The highest paid sales associates working for the participating companies are in the men's clothing area (other departments analyzed include women's shoes, men's furnishings, women's/junior apparel, housewares/gifts, accessories).**
- **The average salary increase was 7.2% in 1987; it is projected to be 5.9% in 1988.**
- **74% of the participants have training programs aimed at encouraging better customer service; the retailers also agreed that training contributes most to good customer service, followed by cash compensation and management control.**

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Retail employee requirements to 1990

Age group	Age composition of sales workers, 1981	Need in 1990 (000)	Likely to have in 1990 (000)	Shortage/ Overage
16-24	32.1%	645	515	−20.2%
25-34	25.3	708	694	− 3.0
35-44	18.9	528	655	+24.1
45-55	15.8	442	417	− 5.7
56-64	12.3	345	256	−25.8
65 +	4.6	129	113	−12.4
Total	—	2,797	2,650	− 5.2%

Source: Bureau of Labor Statistics, 1986 and Management Horizons

fered as ways of getting workers to recruit friends and previous coworkers for management and non-management positions. At Ames, employees receive gifts when a referred person is hired. All employees' names are put into a drawing for a free trip.

Regis Carozza, vp-human resources at New Castle, Pa.-based Fisher's Big Wheel, says, "There's not much we can do about how many people are out there, but we *can* do something about quality."

To help maintain this quality, the company has worked hard to reduce turnover. For example, assistant manager turnover has gone from a high of 26% down to 21% by last year due to adjustment of base pay rates along with increased training. "These programs are motivational because they give employees information that makes them able to be leaders, and that creates spirit," Carozza says.

Fisher's Big Wheel also began a series of surveys in 1988 to compare high- and low-turnover stores. Conclusions will be used to create videotapes for stores where the turnover problem is especially severe.

Hills Department Stores, Canton, Mass., is making retaining employees a high priority. Management stresses long-term career opportunities offered by this fast-growing discounter (it plans to open 16 new units this year). "During orientation we tell employees about the expansion and let them know that there is opportunity here for growth," says Nan Rutter, director of consumer affairs.

A series of in-house video programs and meetings with managers motivate and train Hills employees. "This training helps people feel good about the job they are doing," Rutter says. "If they have positive interaction with people it is motivating," she explains. "We would rather keep people and then promote people who know the company."

Maintaining a productive work force, though, also involves dealing with a host of other human resources issues. Among them are two topics examined in the pages that follow: the likely impact of impending legislation affecting minimum wages and how retailers are (or are not) dealing with the deadly AIDS epidemic. ■

Retailers turn to senior citizens

As the available pool of teenage workers continues to dry up, a number of retailers are turning to senior citizens.

One such company is Ames Department Stores, headquartered in Rocky Hill, Conn. Already feeling the pinch of New England's labor shortage, Ames is aggressively recruiting older employees to work in its stores. According to Cathryn Leonard, director of investor relations, the company is interested in older workers not only because they are plentiful, but also because they have good social skills. "We are particularly interested in the older age bracket because they tend to be personable," she says.

Several techniques are being used in this program. In the home office area, human resource representatives go to senior citizens centers and other retiree gathering places to make recruiting presentations. The field office program uses in-store posters advertising flexible hours and other advantages of retail employment.

Coca-Cola
UP
0 162

EPoS AT TESCO: ONE OF U.K.'S BIG FIVE SUPERMARKETS, WHICH TOGETHER ACCOUNT FOR 53% OF FOOD PURCHASES

EUROPEAN RETAIL TECHNOLOGY COMES OF AGE

SPECIAL REPORT EXAMINES EACH COUNTRY'S APPROACH TO AUTOMATION

In Europe today, retail technology has come of age. It is no longer the sole preserve of data processing departments or considered simply as a financial management tool.

Store directors have personal computers on their desks, merchandisers use decision support software to improve on profitability and product mix, and buyers place orders via electronic data interchange (EDI) links.

Electronic funds transfer at point-of-sale (EFTPoS) and smart cards are as commonplace as checks or credit cards, and the automation flood shows no signs of abating.

At almost any major European supermarket or department store there's likely to be an electronic terminal (EPoS) at the checkout, and also a bar-code scanning device, an on-line link for credit card authorization and, in France at least, there's a good chance they'll even know what to do with a smart card.

In the backroom, there might be either a network of PCs or a sophisticated minicomputer cluster. The buying departments may well be using decision support systems to improve merchandising. Chances are that there will be an EDI system.

The individual retailing and technological traditions of each European country, however, have resulted in considerable differences in the routes individual retailers are taking toward automation.

The French, for example, invented the smart card in the mid-1970s and, national pride being what it is, have been promoting the concept on the home market ever since. Some 16 million smart cards will be issued there by the end of the decade.

France's major credit card organizations introduced smart cards instead of magnetic stripe versions back in 1983, although retailers involved in the early trial (like retailers everywhere) have been locked in arguments over transaction costs with the banks ever since.

In the U.K., meanwhile, retail buying power is concentrated into very few hands, giving them greater power in deciding the direction of technology. U.K. high streets are dominated by a handful of major companies—Marks & Spencer takes about 16% of the total clothing sales, while the big five supermarket chains (Tesco, Sainsbury, Asda, Argyll and Dee) account for more than 53% of the nation's food purchases.

When Marks & Spencer decided to adopt EDI links with its suppliers, it would have been a brave manufacturer who refused to invest in the necessary equipment and risk losing its M&S contract.

Equally, when B&Q—a major home improvement chain with 220 units—decided to introduce bar coding, a large proportion of U.K. do-it-yourself goods became source-marked almost overnight, allowing other retailers to take advantage of scanning techniques. In the U.K. alone, investment in new retail technology has reached £7 billion ($12.6 billion) in the past five years.

In contrast to the British retailing scene, Italian retailing is dominated by small, privately-owned shops with a notorious record for tax evasion. The government introduced special laws a couple of years back that required every shop to have a special electronic cash register with a sealed audit roll unit that the tax inspectors could examine.

The end result has been little

bix
Kellogg's
CORN

NCR 2126 INSTALLATION AT CO-OP SUPERSTORE: FAMILIAR SIGHT IN THE U.K.

change in the tax evasion problem (Italian retailers are cleverer than that), but a vast captive and profitable market for producers like Olivetti that developed the necessary statutory cash registers.

Despite these national differences, major European retailers are embracing technology enthusiastically. Many companies first installed electronic point-of-sale systems five years ago—or more—and have already upgraded the equipment since then.

House of Fraser, the U.K.'s leading department store chain that includes Harrods, has replaced an assortment of Singers, ICL, NCR and Hugin systems installed in the late 1970s with new NCR units (with the exception of Harrods, which operates IBM 3680s). More than 4,000 terminals had been installed by the end of 1987 with a further £3 million ($5.4 million) currently being invested in supermicrocomputers for local merchandise control and management reporting.

This latest investment typifies the European approach to EPoS—it is no longer regarded primarily as a stock control or sales analysis system. Instead, experienced users now put far more emphasis on how the data can be used to help merchandise planning—hence the spate of decision support, space allocation, direct product profitability (DPP) and other merchandising software tools currently being launched in Europe.

Companies like Boots (a major British drug store chain) are now using DPP and rationalizing their product assortments and pack sizes as a consequence. It is a similar picture in the rest of Europe where the Albert Heijn organization in the Netherlands has introduced DPP not just for dry goods, but on fresh produce as well.

Not all companies are such old hands. It is only in the past couple of years that Marks & Spencer has started to introduce EPoS, choosing an ICL system for its larger stores, while the smaller branches are getting something called SPoS (stand-alone point-of-sale) specially developed for the chain by Thorn EMI.

M&S wanted to avoid extensive rewiring costs, so is using a system that needs neither data communication nor power cables. Instead, there are battery-operated terminals with transaction details stored locally and the data cartridges placed in a separate group transfer unit each evening for downloading to headquarters. Some 2,600 of these terminals have been installed in 116 M&S.

Although domestic suppliers tend to dominate local markets, with Nixdorf the strongest in Germany, Olivetti in Italy and ICL in the U.K., all the European suppliers are aggressively competing for the growing business.

In the U.K., ICL estimates that the number of EPoS terminals will increase from 96,000 in 1987 to 410,000 by 1993 *(see chart)*, and it is a very similar story in the rest of Europe. "Europe is certainly moving in paral-

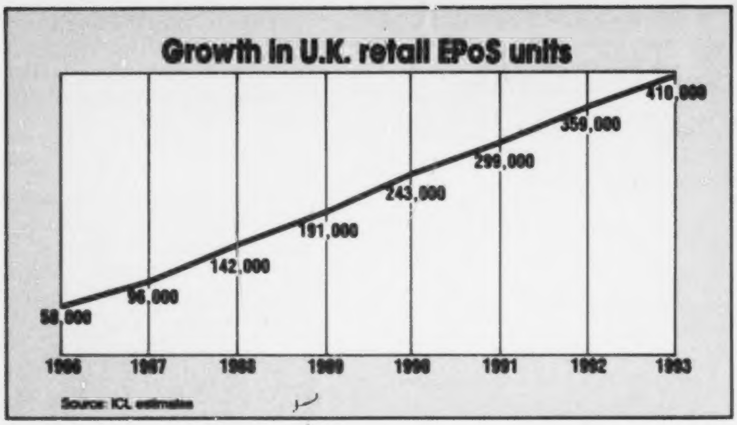
Debit card programs in the U.K. are in startup stages

The U.K. debit card scene is still fragmented. Many small EFTPoS (electronic fund transfer at point-of-sale) trials have been started by individual banks—mostly in gas stations and supermarkets—but a national scheme is still some way off.

Major banks formed a joint company—EftPos U.K. Ltd.—last year with the object of developing a national debit card scheme. The start date is mid-1989 with a planned year-long trial involving 2,000 terminals in Southampton, Leeds and Edinburgh. It will be well into the 1990s before the national scheme becomes widespread.

Meanwhile, the five major U.K. banks (Barclays, Lloyds, National Westminster, Midland and Royal Bank of Scotland) have introduced debit cards (some under the Visa banner) and are developing their own network of terminals.

Barclays has some 5,000 of its PDQ terminals in prime retail locations—including many leading specialty operators and department stores, not just the more usual gas stations and supermarkets. These terminals accept both standard credit cards and the newer debit cards and, in effect, are on the way to becoming a national EFTPoS scheme well before EftPos U.K.'s project climbs off the drawing board.



Source: ICL estimates

lel with the U.K. on the EPoS front," says Don Jackson, retail consultant with ICL. "Until recently we were lagging behind the U.S.A. but now I'd say that Europe had caught up, especially since European suppliers can now offer systems designed for this market rather than retailers having to select American products that were not necessarily designed for the European style of retailing."

As an example Jackson notes the high transaction rates needed in U.K. supermarkets where trading hours are much shorter than in the U.S. and there is a consequent need for fast checkout throughput to avoid the queues—especially in the peak Friday evening rush.

U.S. equipment suppliers have often had to tailor products to European needs. In Europe, for example, it is normal for checkout operators in supermarkets to sit down to work. This led Spectra Physics to design a shallow flatbed scanner which allows operators to get their knees under the unit—not previously possible with standard American systems.

Supermarkets are lagging behind U.S. ones in their willingness to sell scanning data back to suppliers. This is beginning to happen a little in Germany and in the U.K. via A.C. Nielsen's Scantrack service.

Progress is slow, however, and the need to share data is regularly stressed by food manufacturers.

This comparatively late spurt from European retailers for EPoS has also allowed many to take advantage of the recent leaps forward in technology. Olivetti, for example, only launched its first own-manufactured EPoS system at the end of 1987.

"Until the advent of open architecture systems we were never committed to the retail marketplace," says Grant Calvin, the company's U.K. retail group manager. "In effect, we've held back until the right technology came along and now we're offering a solution which allows users to reap the benefits of the latest open systems."

First order for Olivetti's new ORS 500 system came from the British B&Q home improvement chain which has been using IBM 3680s. It had worked with PSI in the States to develop FTS—flexible trading system—which allowed it to use the MS-DOS operating system on its IBM equipment and so gradually introduce other suppliers' hardware and software.

"Technology has changed a lot in the past few years," says David Hodgson, B&Q's business systems controller, "and the new Olivetti system offers us more resilience than was available when we invested in IBM three years ago. It also operates on OSI standards, so we shan't be tied to any one supplier in the future."

The Olivetti system is also being installed by the Italian Co-op and the Agip petroleum group throughout Europe. The Burton Group—one of the few large U.K. retail organizations without a unified EPoS policy—is also piloting the ORS 500 in one of its Liverpool men's wear stores.

Burtons is typical of many European clothing chains in its reluctance to invest in EPoS. After all, many high fashion lines cannot be repeated so item level sales/stock data may be of limited value. Instead many of these firms are developing backroom systems looking at overall product trends and aimed at improving distribution and stock-turn.

Currently about a third of large European retail companies have installed EPoS systems and this figure is expected to grow to 50% by 1989. Sectors which are lagging behind in the EPoS race are generally those where small independents continue to dominate.

While EPoS developments in Europe may be moving in parallel the picture is quite different for EFTPoS. Here it is very much a "love it or loathe it" dichotomy related more to national preferences for checks or credit cards.

In France, Sweden and the U.K., credit cards are very important and checks can easily account for 25% of transactions. However, in the Benelux countries, Switzerland, Germany and Italy there is little local use of credit cards. The average Belgian, for example, writes only 15 checks a year.

Belgium has thus missed out on both check and credit card systems and embraced EFTPoS with enthusiasm. ATMs were first introduced in 1977 and the nation's gas stations started using customer-activated island-mounted card

HOUSE OF FRASER: ONE OF 4,000 NEW NCR EPoS UNITS readers in 1980. Today EFTPoS in one form or another accounts for 85 million operations a year in a country of only 10 million inhabitants.

In comparison, there are virtually no card payment systems yet available in Germany and minimal use of credit cards. The banks are jointly working on a national EFTPoS scheme based on smart card technology which will be getting under way later this year. There are also a few local systems, such as Fashioncard operated from Hamburg, but these are growing very slowly.

SUPERMARKET CHECKOUT: EPoS TERMINALS IN THE U.K. MAY NUMBER 410,000 BY 1993

The French are probably the most enthusiastic EFTPoS fans—thanks to their concentration on smart cards. Critics dismiss this French love of smart cards as a belated gallic attempt to impose its own standard on the rest of Europe and suggest it is doomed to failure. However, the Norwegians have run similar smart card EFTPoS trials very successfully at Lillestrom and its commercial banks use these cards as standard.

All French banks belong to the Groupement des Cartes Bancaires which co-ordinates strategy and this French system is certainly one of the most unified in Europe. The banks tend to issue what are called "level 2" cards which are national payment and withdrawal cards which can be sold as immediate debit or deferred debit cards to suit the customer. Around 9 million of these cards have been issued and most have both mag stripes and built-in chips so can operate as smart cards.

According to Jean Pierre Camelot, senior vp of Groupement des CB, some 300,000 of the country's 360,000 retailers still use manual methods for handling card transactions; 50,000 major firms have been equipped with terminals by the banks (generally these are limited in the range of cards they accept) and account for 60% of all card transactions. The remaining 10,000—mostly major department stores, gas stations and hypermarkets—have their own privately bought terminals which can accept all types of cards and about 25% of their transactions are cards handled electronically.

Joining France in being one of the earliest European countries with national EFTPoS is Norway. A scheme operated by Fellesdata—a company representing the country's 192 savings banks—was introduced a few years back and more recent agreement on joint developments with the commercial banks has provided for a united approach to electronic funds transfer.

With a population of 1.4 million, Norway now boasts some 3,500 EFTPoS terminals. There are 2,000 shops offering EFTPoS and that figure is expected to double during 1988 with 10%-20% of transactions handled this way.

Because of the mixture of mag stripe and smart cards the Norwegians have had to introduce a combined terminal which can read and process both types of cards in on- and off-line mode. A shortage of these units has caused delays in the Norwegian EFTPoS program, but four suppliers have now come up with the goods and Per Bjerkaas, who heads the Federation of Norwegian Commercial Associations, believes that progress will be rapid. *(For information on what is happening with EFTPoS in the U.K., see accompanying story.)*

Although the arguments over mag stripe vs. smart card may continue for some time, the European Economic Community is toward a unified trading approach by 1992 and companies are becoming increasingly aware of the need for international communications standards that this elimination of trade barriers demands.

Europe has already adopted standard bar-coding systems in many sectors using EAN (European article numbering) code. This is similar to UPC code and is generally used in either an eight or 13-digit version. Virtually all grocery lines are now source marked and bar coding is rapidly spreading to books, periodicals, stationery, DIY products, audio, etc.

Fashion and footwear tends to lag behind with individual companies usually preferring their own numeric or Kimball code systems, although Interleaved 2 of 5 is being adopted as a standard bar code by some fashion retailers.

Compared with a few years ago, the European economies are thriving. Retailing is passing through a very dynamic phase with many new niche traders, aggressive acquisition policies and new style shopping developments.

With most large firms well down the automation road, suppliers are beginning to pitch products at the smaller outlets which have yet to discover the benefits of EPoS—NCR, for example, is developing a scanning system aimed at one- to five-aisle supermarkets.

The more sophisticated retailers fully appreciate that their businesses now depend on technology to maintain a competitive edge and are making innovative use of PC technology to integrate a wide range of functions into their store systems.

EFTPoS may be meeting with a mixed response throughout Europe but as far as store systems, communications and integrated computing systems go, retail technology has certainly come of age. ■

—Penelope Ody

Ms. Ody, a special contributor to this issue, is editor of Retail Automation, *a British retail technology journal.*

GQ'S 'MAN IN THE MIRROR' TALKS BACK

NATIONAL SURVEY POLLS ATTITUDES AND OPINIONS OF MEN'S MARKET

What do men really want?

The same question has been asked for years concerning the needs and wants of females. Recently, *Gentlemen's Quarterly* turned the tables by underwriting a national survey of men's attitudes. Significance Inc., a New York City-based market research firm, conducted the study; 1,062 men participated in the project.

The findings of this research have resulted in the *Gentlemen's Quarterly's* American Male Opinion Index, subtitled "The Man in the Mirror."

According to Jack Kliger, *GQ*'s publisher, "There are 118 million men in the United States who have been treated as one. But all men are not alike. And as the women's market is continually being segmented, analyzed and categorized, the male market is demanding equal rights."

To begin with, the study classifies men into one of two rather broad groups: the change-opposers (48% of those surveyed) and the change-adapters (52%).

Contained within each of these two broad groupings are sub-categories, defined on the basis of attitudinal research. This research involved questions related to each of the following: men's self perceptions; sex, commitment and family; and what *GQ* terms "men and their world," including the quality of life, social concerns and coping with change.

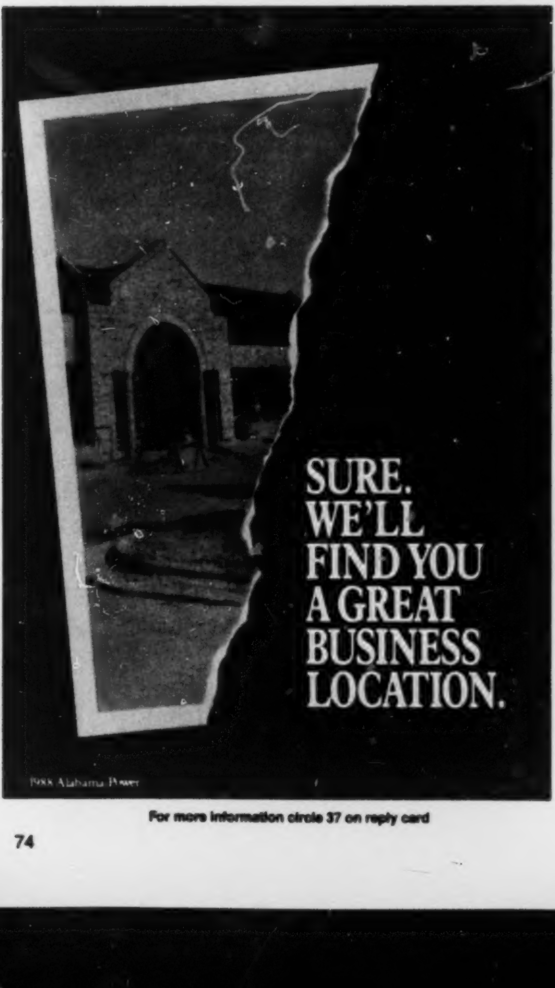
The answers to these questions led to such sub-groupings as the change-resisters, the reactives, and the transitionals, all found under the change-opposers category. On the other hand, the change-adapters include the self-designers, the self-directed, the mature traditionals and the new traditionals.

The typical change resister has experienced little career and/or financial success. He spends most of his time engaged in family or home-related activities. He is conservative in the values he holds, believing strongly in tradition.

Closely related to the change-resister is the reactive. A member of this group is likely to be intimated by change. He tends to cling to traditions and is intimidated in particular by technology-produced changes.

A reactive male is also likely to behave in a distinct way when making purchasing decisions. He is extremely unlikely to "frequently try a new product" (only 8% of this group said they might).

Almost one-quarter of resister males agree with the statement they are "often disappointed" in the products they buy. Correspondingly, 51% say they shop "only at a few stores I know well."



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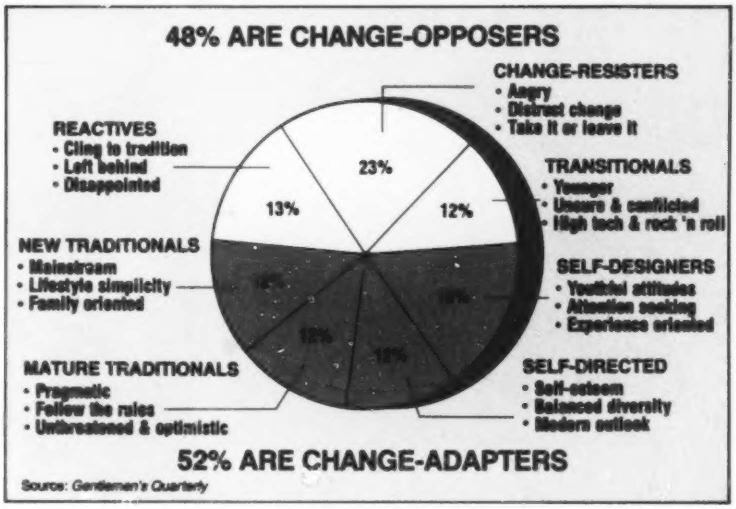
The last change-opposer group is the transitionals. "Transitional" refers to the fact that the attitudes of males in this group are in a state of flux.

Unlike a transitional male, a new traditional is likely to be very aware of the importance of appearance, especially when it comes to career success. A new traditional male is also very likely to derive most satisfaction in his life from family and friends (according to 72% of this group, compared with 61% of all men surveyed). He is also extremely likely to feel that his family is "the most important facet of my life" (the sentiment expressed by 78% of these males).

When it comes to making purchases, a new traditional takes a fairly cautious approach with reliability playing the leading role in making buying decisions.

When discussing the mature traditional male, the word "traditional" itself is key in understanding his behavior: most of these males (53%) think "American made is the best made" when looking at product choices; "my family is the most important facet of my life" is a shared belief (held by 81%).

At the same time, though, 37% of such males maintain that their careers are the "proudest accomplishment" of their lives. This segment contains the largest percentage of men in sales and managerial or administrative occupations. To be successful in such occupations, they place a high value on appearance.



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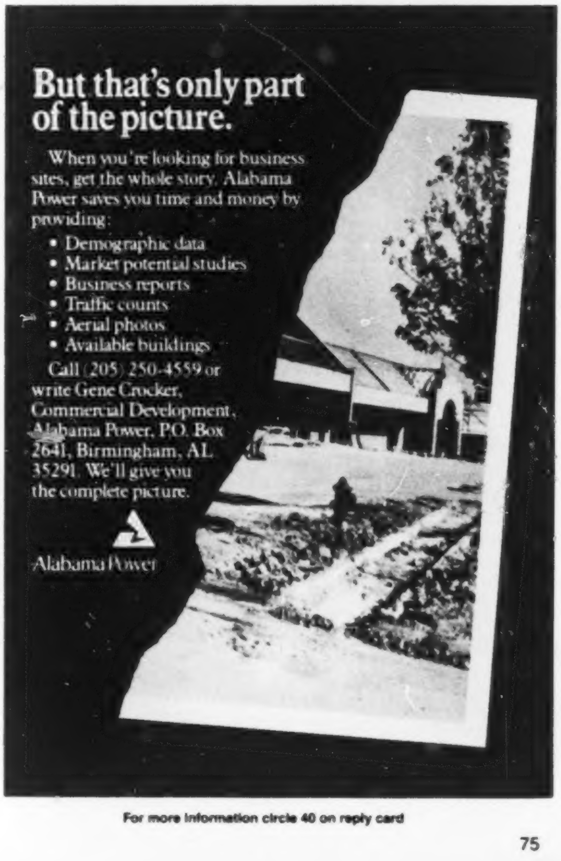
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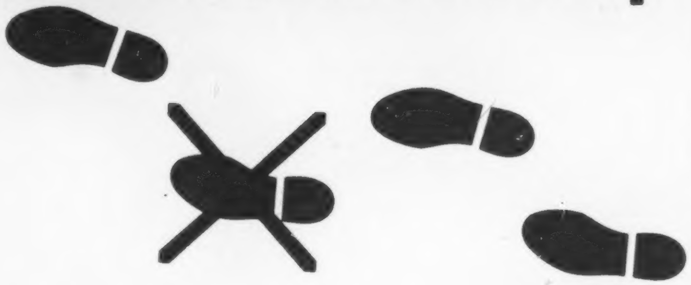

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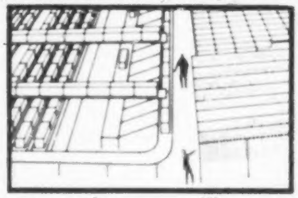

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A member of the self-designers group is even more apt to be career-oriented. He is also likely to have a higher average household income than men found in any other groups. Similarly, he is the most conscious of his appearance and most attuned to how he is perceived by others. Seventy-six per cent of such males agree with the statement "How I look is an important part of what I am."

A self-designer usually has a diversity of interests: he likes to participate in activities that contribute to self-improvement, as well as those he believes improve the quality of life. He is information-oriented, especially when it comes to acquiring information about money management, fashion and vacation destinations.

The last of the seven sub-groups, the self-directed, are generally affluent, educated and in control of their lives. It's not surprising that more than 70% of such males say that they "love to explore new things and learn new ideas."

Likewise, when it comes to their appearance, a majority of these men say, "I won't mind looking my age when I'm over 40" (a milestone which a large number have already passed); 33% of this group also feel that "women are more attracted by brains and personality than by looks."

Other general findings of the *GQ* study include the following:

- Forty-five per cent of all of the men surveyed said their income can meet their needs; yet 52% report they are willing to pay more money to make certain that what they are buying is the highest quality product available.
- Only 26% of those men surveyed strongly agreed with a statement indicating work is the proudest achievement of their lives; only 15% state that their career is as important to them as their family and friends, although 40% admit that their career is an important expression of who they are; 52% of men feel people are so caught up in making a living they lose track of what's important in life.
- Seventy-nine per cent of those surveyed strongly support the statement "It is only fair that women workers should get equal pay for comparable work."
- When it comes to their families, 87% of the men assert that a father's role is just as important as a mother's in raising children; 73% say that their families are the most important facet of their lives; 54% say the most satisfying accomplishment for a man is to be a father. ■

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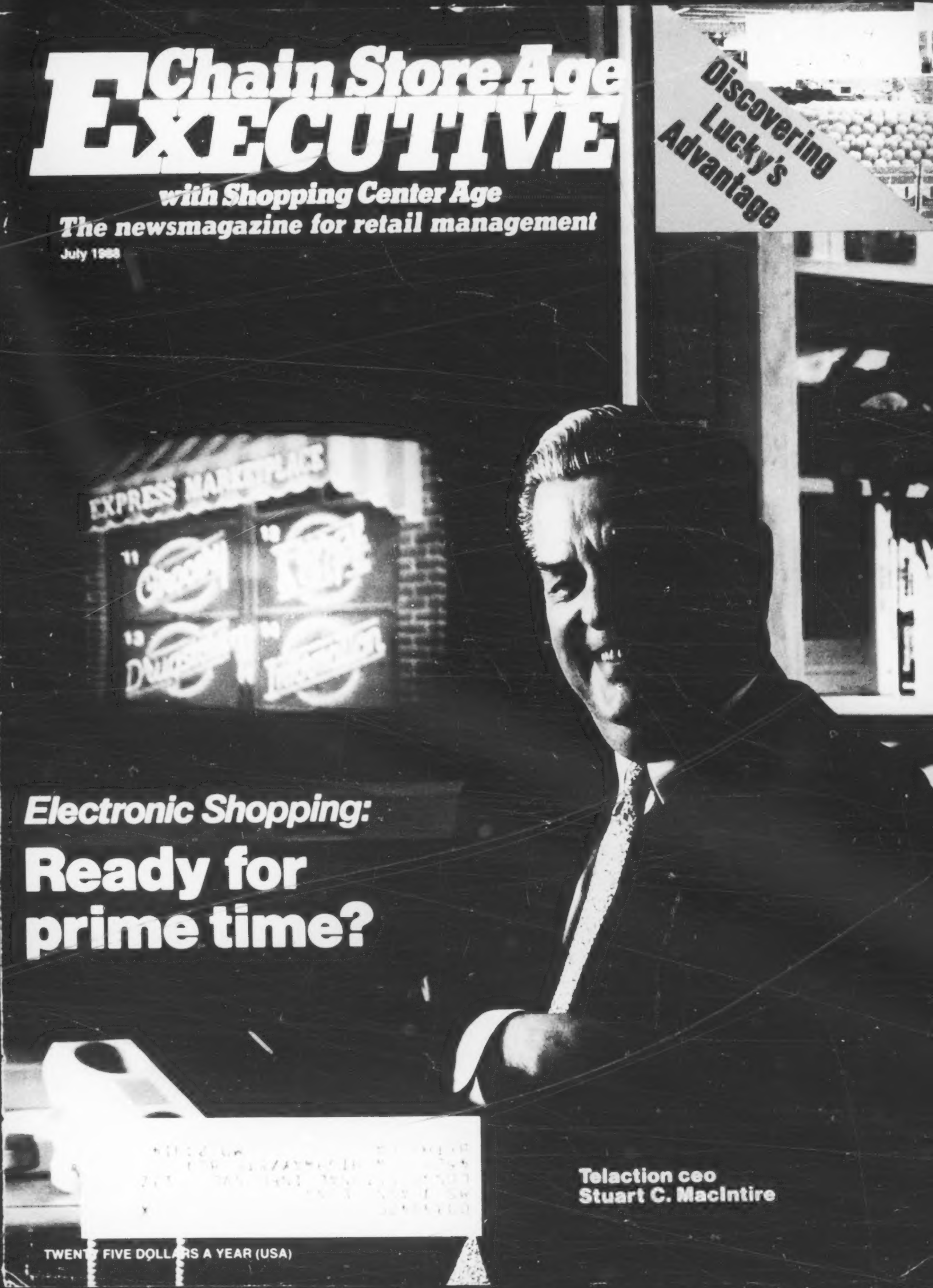
The newsmagazine for retail management

July 1988



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CHICAGO MARKET IS FEELING THE POWER BOOM

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HOME SHOPPING READIES FOR SECOND SEASON

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The cable-television shopping channel, featuring on-air hosts offering consumers low-priced merchandise that they could purchase via telephone, quickly became the darling of Wall Street. Sales at HSN soared—and the number of competitors grew almost as rapidly.

The HSN bubble burst suddenly, though, when news leaked out that sales were failing to meet projections.

Detractors were quick to proclaim the demise of home shopping, citing HSN's woes as proof they were right all along in saying that American consumers just were not interested in using home shopping services.

Perhaps they have been too quick to sound the death knell. Admittedly, HSN last year failed to reach its original forecast of $800 million in sales.

However, the home television shopping industry itself is remarkably robust. Carmel, Calif.-based Paul Kagan & Associates estimates that total home shopping sales in 1987 soared to $1 billion—up a whopping 122% from 1986's $450 million. For comparison, in 1984 industrywide home shopping sales stood at only $20 million.

Kagan further forecasts that this year sales will jump an additional 40% to $1.5 billion. By 1992 revenues are projected to soar to $2.5 billion-$3 billion annually.

"Video retailing is not going to replace stores and it will not be a huge business. But it will be a very nice business," says Larry Gerbrandt, senior research director at Kagan.

Along with HSN, contributing to home shopping's growth are a host of additional home shopping shows all utilizing basically the same HSN model. The other major players include Cable Value Network, the Fashion Channel (about to be sold), America's Value Network (which recently filed Chapter 11), QVC Network and Shop Television Network—one of the newest entries.

It is unlikely that all will survive.

Compared to such services as cable TV's Telaction *(see story this issue)* and computer videotex's Prodigy, HSN and its sister networks are distinctly low-tech. "The simplicity of such systems may be their biggest drawback," says Gerbrandt.

"They appear easy to replicate, and therefore there is tremendous competition in this field," he explains. "At least two dozen attempts have failed in the last 36 months and we expect to see a couple more soon."

Along with competition itself, their success has been hampered by "the high cost of buying air time, poor fulfillment of orders, and trying to operate such services on a less than a 24-hours-a-day basis," says Gerbrandt.

On the plus side, he points out that "Americans like to be entertained while being sold, and these shows also bring back some of the salesmanship that is now lacking in most transactions. Plus, these systems capitalize on a person's enjoyment of having a package arrive at his doorstep. It's a reinforcing process.

"The economy of such systems is a retailer's dream," he emphasizes. "Distribution is centralized and it is necessary to have only one salesperson for the entire country. Only a relatively small capital investment is required to get started and this gives these companies relatively low-cost access to what is, in effect, retail space right in people's homes."

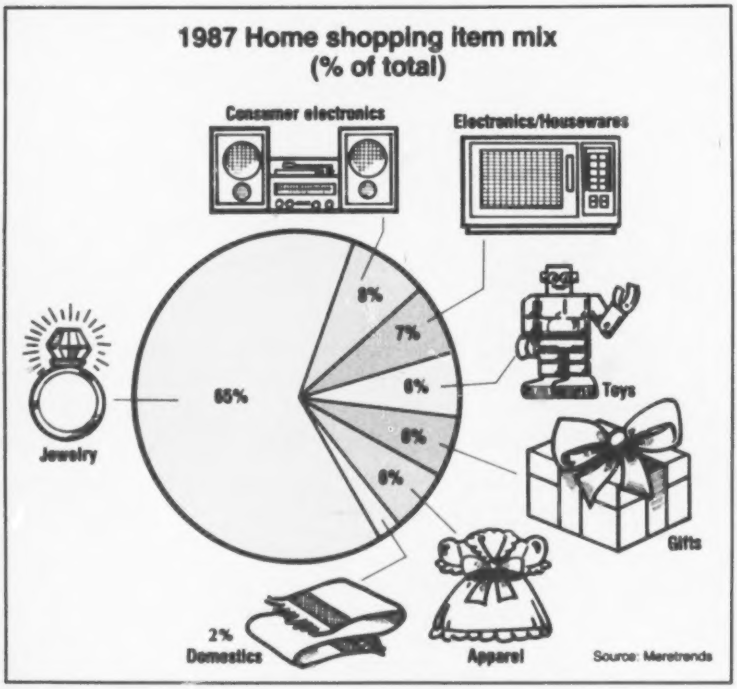
Providing further evidence of television home shopping's potential, a report prepared by Dublin, Ohio-based Management Horizons (a division of Price Waterhouse) lists the following positive factors impacting its growth:

- a large potential audience, a Nielsen Report that projects the number of bank cardholders will reach 76.9 million by 1990,
- the participation of conventional retailers in such programs,
- the already well-chronicled popularity of non-store marketing (the boom in catalog sales, for example)
- the sheer entertainment value of such shows.

Trying hardest to capitalize on entertainment is Los Angeles-based Shop Television Network, subtitled "The Better Shopping Channel."

STN entered into a joint venture with Dallas-based J. C. Penney last August (Penney now holds a majority interest) and in October began broadcasting its home shopping programming through cable lines. STN supplies all of the programming while Penney handles order-taking and fulfillment.

"We're the last player in the game when it comes to home shopping channels, but we have a very strong partner putting money in with us," says Michael Rosen, STN chairman and president.



1987 Home shopping item mix (% of total)

Source: Maretrends

"Our success as a home shopping service," he says, "depends on our ability to bring three basic elements to our viewers: a shopping format that informs and entertains throughout the selling process, a wide variety of quality product that represents great values, and an ordering and delivery standard that minimizes frustration and maximizes general customer satisfaction."

Unlike the usual home shopping channel programming, STN divides its offerings into distinctly different programs, creating 48 half-hour themed segments. The aim of each is to offer entertainment and information, while also featuring related brand name merchandise.

Hosts include Pat Boone, Juliet Prowse and Steve Edwards. Product experts appearing during specific segments include Shari Lewis ("Family Fun"), Beverly Sassoon ("Beauty"), Dr. Ron Lawrence ("Better Health and Fitness"), Susie Coelho ("Style '88") and Richard Simmons ("Shape Up").

Gary Smith, a winner of six Emmy Awards, is STN's executive producer. Programming, which runs 24 hours a day, originates from STN's own custom-built "indoor shopping mall" at Hollywood Center Studios.

"I believe that there eventually will be two home shopping networks, one at the low-end of the market and one that is dramatically different," says Rosen. He emphasizes that STN is going after the upper end of the market with its entertainment-oriented format.

West Chester, Pa.-based QVC Network takes a different approach. "We entice customers into watching and using our service through games and sweepstakes," explains D. Bruce Sellers, executive vp-affiliate relations. These include a word unscrambling game (QVC receives between 25,000 to 40,000 entries per week) and a lucky numbers game.

QVC presently is broadcast to approximately 13 million households. For the quarter ended April 30, net sales totaled $38.1 million, with earnings of slightly over $1 million.

Like STN, programming at QVC consists of different scheduled segments. "We like to make sure that the customer knows what she will find when she tunes in the channel," Sellers explains.

Approximately 15% of the merchandise QVC sells is supplied by Chicago-based Sears, Roebuck. The mix includes Sears Craftsmen tools and Kenmore appliances. Because most consumers are only now growing accustomed to dealing with home shopping programs, "Offering such well-known products initially helped us to bridge the credibility gap," points out Sellers.

Also helping to bridge that gap is the promise of a 100% money-back guarantee. To handle customer inquiries, QVC has set up a telephone number—entirely separate from order entry lines—where a customer service representative is available to answer questions 18 hours a day.

To help gauge customer satisfaction, QVC inserts a questionnaire in all packages it ships. Nineteen percent of customers fill out and return the form, Sellers says, adding that based on consumer acceptance to date, "we see a $1 billion business for our company within the next five years."

He believes that to be a long term survivor in this business "the service must be a 24-hour-a-day fully-dedicated network. The company itself must be responsible for everything from showing the merchandise to shipping it. And I believe the programming must be live," Sellers says.

"Furthermore, it's important that the format appeal to both shoppers and non-shoppers. It must have some entertainment value as well as just showcasing merchandise. The balance is critical," he says.

Already, cable viewers with access to such programming watch home shopping an average of one hour and six minutes a day, according to Bill Thompson, president of Largo, Fla.-based Thompson Associates, a supplier of merchandise for many of the home shopping channels.

He claims that the typical TV shop-at-home customer "is uncomfortable with shopping, but inquisitive. With TV shop-at-home the behavior of shopping is no longer necessary. That's why I believe that rather than shaking the tree, home shopping channels are finding a whole new branch of consumers." ■

FOR DISCOUNTERS, TURNAROUND IS THE ONLY PLAY

STUDY OF CHAINS' STOCK TURNS SHOWS A DIFFERENCE OF MORE THAN 100%

If you listen to Robert M. Zimmerman, discount stores should be ashamed of themselves.

These retailers, after all, make their money by controlling costs and managing merchandise effectively; one of the major measures of the latter is inventory turnaround.

Yet according to a newly-released survey by Coopers & Lybrand, the difference among discount store chains regarding turnaround exceeds 100%, with the most efficient store turning over merchandise more than twice as often as the least. Zimmerman is chairman of the firm's Retail Industry Practice.

The firm asked 25 major discount store chains to report their annual inventory stock turn results; 15 of the 25 responded, "and for the most part they are the people you would want to respond," says Zimmerman.

Stores were asked to report end of month inventory for 12 months and the opening inventory for the end of that 12 months, and divide by 13 to determine the average number of turns.

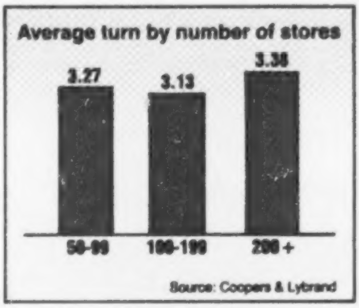
It is that difference that is most surprising to Zimmerman. "The biggest number we have is 4.96; the smallest is 2.40, and that's not a small company. Whoever he is, he's doing over $500 million worth of sales," says Zimmerman.

Firms analyzed in the study were divided into three sales categories: $200 million to $499 million; $500 million to $999 million; and over $1 billion.

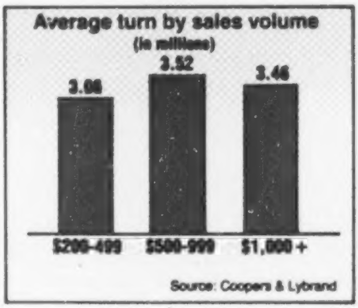
"So here we have a group of 15 companies who are in the same business, selling the same kind of merchandise in the same way to the same kind of customer at the same price points; within reason, you cannot get a more homogeneous group of retailers," Zimmerman continues. "Yes, each is unique, and each has something that differentiates it, but basically, they're selling the same merchandise at the same prices in the same way: front-end checkout, self-service, with a mix of hard and soft that isn't that different.

"So how do you get, in a figure as important as merchandise productivity, twice the difference from the bottom to the top? That's astounding! Their margins don't differ by twice, their expense ratios don't differ by twice; nothing differs by twice. Yet merchandise productivity does."

But what does it mean? "What it says is: you really have a mess out there. It's not consistent: it has to do with how people run their business. There are six seasons in a year in the softgoods business; so why aren't softgoods turning six times? Sure there's overlap, imports you have to bring in earlier; [but] there's also sloppy buying, sloppy distributing, pipelines that are too full, merchandise that doesn't move right, markdown not taken properly." Results range from 2.50 to 5.20, an even greater difference than overall.


Average turn by number of stores

Source: Coopers & Lybrand


Average turn by sales volume (in millions)

Source: Coopers & Lybrand

Even more guilty are those selling hardgoods, says Zimmerman; results in that category ranged from a high of 4.62 to a low of 2.43. Again, he maintains that this isn't good enough. "Hardgoods, as far as I'm concerned, should turn 12 times a year—with some exceptions. What's the big deal? It should be on a one-on-one replacement with certain kinds of merchandise. It's predictable, it's stable, even if it's seasonal, even if you're dealing with things like garden hose."

The number of stores in the chain seem to have little relationship to the amount of turn: stores with between 50 and 99 units reported an average of 3.27, while 100-199 unit chains reported 3.13 and chains with more than 200 outlets averaged 3.38. According to Zimmerman, geography also was irrelevant.

"Distribution technique doesn't matter, either. Some people run everything through a central warehouse; some people don't have one. Some use a lot of vendor service; some use a little. You have all the permutations of how to move merchandise through the business. And I don't see that as a correlation, either," says Zimmerman.

Nearly as important, the median annual turn for the 15 companies was 2.9, slightly *below* the 3.0 figure reported in 1982 (the last time such as survey was undertaken by Coopers & Lybrand), despite the great technological advances that have taken place throughout the retail industry.

"It's not like the industry has developed techniques that have enabled them to move merchandise more effectively than they did five years ago. That's too bad," says Zimmerman. This may change soon, though. "We're starting to put together the UPC bar-coding and the automated inventory systems into the EDI environment, in which the linkages between the sources of the customer demand are going to be so short that the really good operators are suddenly going to break those numbers. And that 5, while a good number, won't be the top number in a couple of years," says Zimmerman.

In addition, discounters will learn from colleagues, he says. "You're going to see the techniques used by the warehouse clubs being used by the discount industry. Some of the techniques used in the supermarket industry are going to be used in the discount industry. So what you're going to have is a combination of new and improved techniques, and the leaders will start to inch their numbers above 5, and the guys still at the 2½-3 level will be out of business."

"So I end up, based on a subjective feel for what I've seen, believing that it's execution that counts. That the guys with the biggest turn numbers are the companies that you know to be the most effective operators. It is almost irrelevant as to the techniques they employ; they just do it better." ■

STORE SIZES REFLECT BROADER MIXES

SURVEY SHOWS RETAILERS ARE ADDING SPACE TO INCLUDE NEW MERCHANDISE

When walking into a new store the first thing the customer notices is the merchandise displayed in front of her. Rarely does she give much thought to the design of the store itself.

Those who have responsibility for that design, however, know how important their work is when it comes to conveying the store's image and making sure it generates maximum sales.

To try to make their jobs slightly easier and in recognition of the hefty capital expenditure budgets handled by store planners and designers, *Chain Store Age Executive* presents its annual physical supports census.

This census presents cost comparison data on how much per square foot is being spent on various physical supports. Information on the average lifespan of each is also provided.

The census also includes data about the average size of various types of stores, and cost of building them.

There are very few overall trends that can be discerned from this data. It does appear, though, that several types of stores are growing larger.

The biggest increases are in the drug store field, a reflection of the rapid growth in deep discount drug stores which are generally larger in size than more conventional units.

Survey participants report that the average size of their existing stores is 24,600 sq. ft., considerably larger than the average size of 14,300 sq. ft. reported by last year's group.

There has also been a sharp rise in the size of supermarkets during the past 12 months. While respondents report that the average size of their existing stores is 35,900 sq. ft., stores opened in the last year are averaging 52,000 sq. ft.

Format changes are also contributing to an increase in home center square footage. Those home centers surveyed report that their existing stores are averaging 32,400 sq. ft. in size, an increase from last year's average of 28,300 sq. ft. It appears that even operators not involved in the warehouse business *per se* are taking lessons from those chains and building their stores larger to house more merchandise.

Unlike their drug, supermarket, and home center counterparts, the situation appears close to *status quo* for department stores and apparel specialty stores when it comes to store size.

The department stores participating in this year's survey report that the average size of their existing stores is 136,600 sq. ft.; this compares to an average of 148,300 sq. ft. for last year's group.

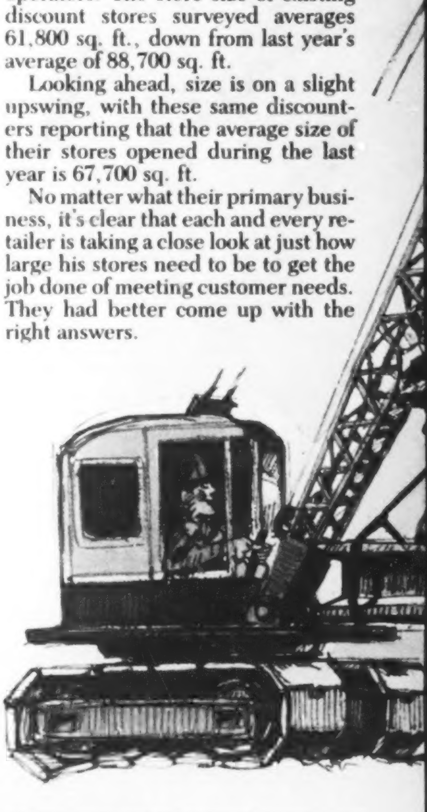
Department stores are starting to grow smaller again, though, with the average size of stores opened during the last year sliding to 110,200 sq. ft.

As for the apparel retailers, the average size of their existing stores is 23,700 sq. ft., up only slightly from 21,200 sq. ft. reported last year. The size is continuing to go up, however, with these same retailers noting that the average size of their stores opened during the last year now stands at 25,900 sq. ft.

The only category of retailing where store size appears to be sharply diminished is among discount store operators. The store size of existing discount stores surveyed averages 61,800 sq. ft., down from last year's average of 88,700 sq. ft.

Looking ahead, size is on a slight upswing, with these same discounters reporting that the average size of their stores opened during the last year is 67,700 sq. ft.

No matter what their primary business, it's clear that each and every retailer is taking a close look at just how large his stores need to be to get the job done of meeting customer needs. They had better come up with the right answers.



Apparel Specialty

Existing stores: **23,700 sq. ft.**

Amount of selling space available in typical store: **19,648 sq. ft.**

Size of stores opened in 1987-88: **25,900 sq. ft.**

Amount of selling space available in stores opened in 1987-88: **21,548 sq. ft.**

Cost to erect a building shell within last 12 months: **$26.50**

Source: *Chain Store Age Executive* **research**

Department

Existing stores: **136,300 sq. ft.**

Amount of selling space available in typical store: **111,085 sq. ft.**

Size of stores opened in 1987-88: **110,200 sq. ft.**

Amount of selling space available in stores opened in 1987-88: **92,127 sq. ft.**

Cost to erect a building shell within last 12 months: **$38.20**

Source: *Chain Store Age Executive* **research**

Discount

Existing stores: **61,800 sq. ft.**

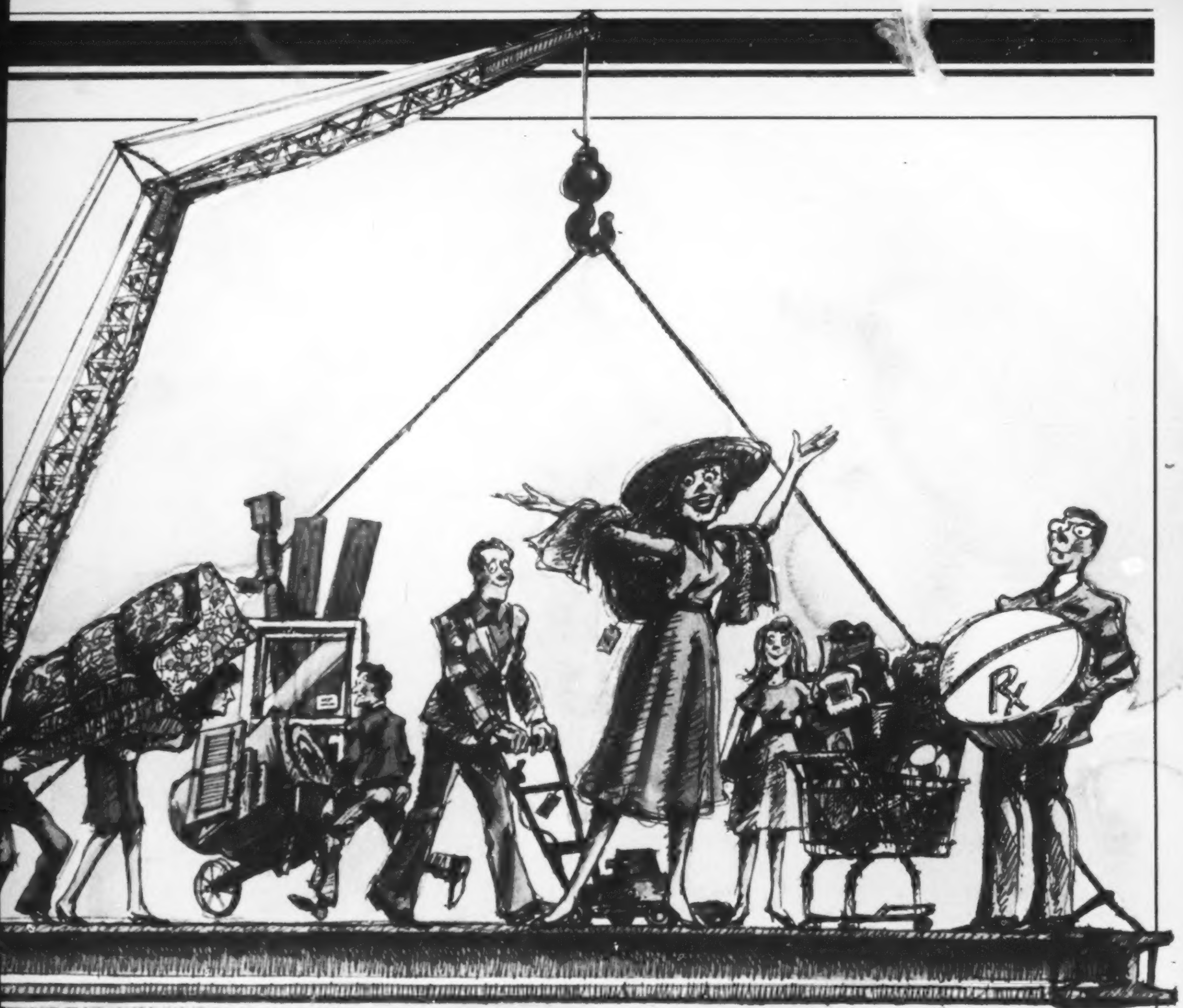
Amount of selling space available in typical store: **50,368 sq. ft.**

Size of stores opened in 1987-88: **67,700 sq. ft.**

Amount of selling space available in stores opened in 1987-88: **53,763 sq. ft.**

Cost to erect a building shell within last 12 months: **$22.90**

Source: *Chain Store Age Executive* **research**



Drug

Existing stores: 24,600 sq. ft.

Amount of selling space available in typical store: 19,477 sq. ft.

Size of stores opened in 1987-88: 20,600 sq. ft.

Amount of selling space available in stores opened in 1987-88: 16,026 sq. ft.

Cost to erect a building shell within last 12 months: $29.00

Source: *Chain Store Age Executive research*

Home Center

Existing stores: 32,400 sq. ft.

Amount of selling space available in typical store: 25,045 sq. ft.

Size of stores opened in 1987-88: 31,800 sq. ft.

Amount of selling space available in stores opened in 1987-88: 24,104 sq. ft.

Cost to erect a building shell within last 12 months: $27.60

Source: *Chain Store Age Executive research*

Supermarket

Existing stores: 35,900 sq. ft.

Amount of selling space available in typical store: 25,991 sq. ft.

Size of stores opened in 1987-88: 52,000 sq. ft.

Amount of selling space available in stores opened in 1987-88: 38,376 sq. ft.

Cost to erect a building shell within last 12 months: $31.00

Source: *Chain Store Age Executive research*

GRAPHICS AT UPS & DOWNS: GAINING CUSTOMER ATTENTION WITH ITS IMPLICIT MESSAGE, SCALE AND LOCATION

UPS & DOWNS: IMAGE VIA SIGNAGE & GRAPHICS

JUNIOR WOMEN'S APPAREL CHAIN INSTALLS INTEGRATED PROGRAM

Two years ago, the management team at Infield, Conn.-based Ups & Downs, a junior women's apparel store, decided that the chain needed to change its image—or at a minimum it needed to project a more consistent one.

Management then believed that its target customer, a female between the ages of 14 and 23, was not sure exactly what Ups & Downs, a division of Cincinnati-based U.S. Shoe, was all about.

To help clear up such problems, Ups & Downs management contacted Robert Gersin, president of Robert Gersin Associates, based in New York City, to create a cohesive graphics and signage program for all of its stores. (Gersin was the firm responsible for the award-winning graphics put in place at all of A&P's Future-Stores.)

Says Gersin, "The real issue is image building through graphics. This includes the environment, the actual signage used, and other promotional devices. These are all part of what we do. That's why we have designed an integrated system."

The store's graphics show different parts of a woman's body clad in Ups & Downs merchandise.

Maintaining that the image the retailer is attempting to project does not stop at the checkout, Gersin also designed shopping bags featuring the identical graphics to those that hang on the store walls. This provides the customers with strong images of the chain, says Dale Alexander, Ups & Downs president.

Gersin's graphics and signage program has been fully installed in six units which Gersin designed from the ground up. All 400 stores, however, have adopted part of the signage system.

"Prior to this new program," Alexander says, "it was whatever someone came up with that the stores used. There was no theme."

He explains, "Someone would say, 'It's fall, so let's use a fall sale sign,' and then they would pick specific price points for the sale merchandise."

Lifespan for interior signage

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
5 years or less	43	65	25	15	45	50	55
6-10 years	31	10	50	50	10	30	35
11-15 years	7	10	5	25	—	—	—
16-20 years	2	5	5	—	—	—	—
Lifetime/permanent don't replace	8	5	15	5	10	10	—
As needed/required	3	—	—	—	15	—	—
Don't have it/don't use it	3	5	—	—	5	—	10
Don't know/can't estimate	5	—	—	5	15	10	—
(MEAN NUMBER OF YEARS)	(6.6)	(7.4)	(8.5)	(9.2)	(3.5)	(5.5)	(4.3)

Source: *Chain Store Age Executive* research

Cost per square foot for interior signage							
	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than $0.10	23	20	30	10	25	25	30
$0.10-$0.14	8	5	10	5	–	10	20
$0.15-$0.25	10	40	20	–	15	15	15
$0.26-$0.50	17	20	15	25	15	25	–
$0.51-$0.75	3	–	5	5	5	5	–
$0.76-$1.00	8	–	15	10	5	–	20
$1.01-$2.00	3	5	–	15	–	–	–
More than $2.00	4	5	–	10	5	5	–
Don't have/use	3	5	–	–	5	–	10
All other mentions	2	–	–	–	5	5	–
Don't know/no answer	10	–	5	20	20	10	5
(MEAN)	($0.43)	($0.39)	($0.30)	($0.88)	($0.43)	($0.36)	($0.29)

Source: *Chain Store Age Executive research*

If a retailer implements signage in this haphazard fashion, Alexander says, the retailer does not project a consistent image, because the message changes from event to event.

Instead, with the new program, red signs always mean a sale, and yellow signs always mean clearance, explains Alexander. Some of the signs list either specific price discounts or a percent off, he says.

Gersin breaks visual imagery into three categories: implicit communication, explicit communication and promotions.

The implicit message, he says, projects a sense of lifestyle. It is a statement of how fashions are worn by customers. Therefore, Gersin says, the retailer focuses on the merchandise. It has nothing to do with the store, just the clothes, he says.

"The explicit message is a sign saying that there is a sale," Gersin explains.

"We are very consistent," he says. "We speak 'sale' the same way every time. We don't shout it one time, and whisper it the next. This way, the customer understands us. She is comfortable shopping in the store, and we get the information to her quickly," Gersin says.

Finally, in between the implicit and the explicit message, according to Gersin, is the promotion.

"This tells customers that there is something special going on in the store. These are short-lived events," he observes.

In working with various retailers—including both Sears, Roebuck and Casual Corner (another U.S. Shoe division)—Gersin and his design team have discovered that many retailers do not have a clear understanding of the purpose of signage.

"Signage is essential," he observes. "Certain kinds of signs, the consumer swallows whole. Others, they won't even look at. Many retailers don't learn the difference."

Gersin thinks that there is a great opportunity for retailers to do signing better.

"I think there is a horrible excess of signing out there," he says. "The trend when business is poor is to barrage the customer with signage to attract her attention. This attention is self-canceling," says Gersin.

In the Ups & Downs locations, the visual imagery is naturally placed. Customer attention is attained because of the scale and the location.

For example, the graphics are large and are placed on one wall in a sequence. The signage is intermingled and uses the same color scheme as the rest of the fixtures.

"All parts are balanced in every store we do. This is the common denominator in all of our projects—we essentially create a new entity," says Gersin, adding, "In each unit, we tell its story a different way because each retailer is unique." ■

LIGHTING ON THE BOTTOM LINE

ACCOUNTING FOR 60¢ OF ELECTRICITY DOLLAR

"Lighting is a key to retailing, and it's also an operating cost," observes lighting consultant Berney Harris, president of New York City-based Easy Elegance. According to Harris, merchandisers often work under mistaken notions of cost-effectiveness. "They'll spend $25,000, $30,000 on an ad, [yet won't invest so] people see things in the store at the optimum level. Poor lighting can cost people sales. And if there is a way to improve the bottom line on lighting, I think it's through the latest in lighting at the lowest operating cost."

This can have a major impact on the bottom line. According to Harris, 60¢ of every retailer's dollar spent on electricity is spent on lighting.

That's far too much, agrees George Briggs, vp-store planning of Totowa, N.J.-based Shoetown. "Years ago, retailers overlit everything 30% anyway. Electricity was cheap; it was 4¢ a kilowatt hour. Now it's an average of 12¢ a kilowatt hour. So it's gone up 300% to 400% since they've been doing it. It really is a lot of energy; they don't need that much light; it's how

Cost per square foot for interior lighting							
	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than $0.10	6	—	25	—	5	5	—
$0.10-$0.14	8	10	15	—	—	10	10
$0.15-$0.25	11	5	5	20	5	20	10
$0.26-$0.50	15	25	10	15	5	25	10
$0.51-$0.75	8	5	5	5	5	20	5
$0.76-$1.00	11	15	10	10	15	—	15
$1.01-$2.00	19	30	25	30	25	5	—
More than $2.00	20	10	5	20	30	10	45
Don't know/no answer	4	—	—	—	10	5	5
(MEAN)	($1.06)	($0.98)	($0.70)	($1.17)	($1.47)	($0.63)	($1.43)

Source: *Chain Store Age Executive research*

FIXTURE PLACEMENT: DIRECTING LIGHT ON MERCHANDISE SAVES ENERGY

Lifespan for interior lighting

	Total %	Discount %	Drug %	Super-market %	Depart-ment %	Home Center %	Apparel Specialty %
5 years or less	15	5	25	15	5	15	25
6-10 years	33	30	40	15	40	20	55
11-15 years	15	20	5	15	20	25	5
16-20 years	22	35	20	35	25	15	—
21-29 years	4	5	5	—	—	15	—
30 years or more	—	—	—	—	—	—	—
Lifetime/permanent don't replace	8	—	5	20	5	10	10
As needed/required	1	5	—	—	—	—	—
Don't know/can't estimate	2	—	—	—	5	—	5
(MEAN NUMBER OF YEARS)	(12.4)	(14.4)	(11.1)	(13.6)	(13.1)	(14.2)	(7.9)

Source: *Chain Store Age Executive research*

the light is placed. We can really save a lot of energy."

Often, this will include the use of reflectors to replace some of the bulbs throughout the store. Harris, in fact, designed a specific reflector for 90 Shoetown branches.

"I needed someone to make a reflector for me that met our specifications, and no one made anything like that. It's a reflector that goes in a four-tube fluorescent fixture," explains Briggs. With four tubes using 40 watts each and two ballasts using 10 watts, the energy expenditure was enormous.

"We [now] use only two tubes and a reflector," Briggs continues. Of course, many firms make such fixtures, but the special needs of a shoe store mean custom-designing. "At Shoetown, we display on the average of 8,000 shoes in a store. So we have it on a 30° angle so you can see them on racks that are 8 ft. long and 6 ft. high, with 240 pairs on a rack. We couldn't get anyone to make a reflector that would enhance our shoes because they had only certain designs."

The design has worked, says Briggs. "Out of the 90 stores, we really showed a great savings: there is no doubt that we saved 50% of our lighting costs."

Still, Harris says, "Most shoe stores are easier to light [than other types of retail units] because they're laid out with a number of straight aisles. You just have to make sure the lighting is down the center of the aisles, where the other stores tend to move merchandising around; that's one of their problems."

Those aisles, though, have to be lit correctly. The usual 2 ft. by 4 ft. fixtures must be properly placed to avoid the problems often encountered by other stores. "Let's say your rows are going north/south with shoes. If you go into a store where the lights are going east/west, with the 4 ft. side going across the aisles instead of down the aisles, you're going to get fairly decent light in the aisles; but as you get closer to the walls they become dark and the rack on the walls becomes dark. You've got to direct light at the merchandise."

Light placement is a difficulty common to most stores. Certain lights, says Harris, "have optical curves, and after a certain distance, the light starts fading fast. Another problem I see is that they've got the lights behind the merchandise so that it can't get to the goods. In other stores they've laid the fixtures wrong, and certain corners and walls get dark."

To solve his own problem of ensuring the bottom rows of shoes were properly lit, Briggs actually attached strings to the shoes to determine the proper light pattern.

In addition, the more efficient use of energy will allow retailers to invest in the new color-corrected lamps that will further enhance the look of the merchandise, Harris says. Up until now, he believes, "The thing that's been holding them back, quite truthfully, is the cost of the bulbs. They're so expensive, they don't want to spring for it."

This is because of the aforementioned bottom line, as well as corporate bureaucracy, Harris explains further. "The operating guy has a budget, so he has to meet it, and these bulbs are almost double the cost, so he has trouble doing it. And this is something that really helps merchandising since it really makes everything look better. So there's no one really making the decision on the color-corrected lamp, since one wants to get the cheaper bulb. With the reflectors, the retailer's end costs for the bulb is no more than the other one. In the meantime, they're going to save 50% on their energy bill." In addition, cutting down the actual number of bulbs used will reduce maintenance and HVAC costs.

The goal of all this, of course, is to increase sales. Concludes Harris, "Basically, I would like to see lighting used as a merchandising tool." ■

FIXTURES ENHANCE PRODUCT IDENTITY AT ECKERD

DRUG CHAINS ARE FOCUSING ON UPGRADING STYLE, FUNCTION OF DISPLAYS

Bill Price thinks that drug store chains have a lot of catching up to do. Price, who is merchandising and store planning vp for 1,581-store Eckerd Drug, says that when it comes to merchandise display fixtures, drug store chains are "behind department stores, grocery stores and mass merchandisers" in adding design excitement to the interiors of their stores.

Therefore, in remodeling 250 of its units, Largo, Fla.-based Eckerd is focusing its attention on upgrading the styling of its display fixtures. The design, color and height of fixtures are now being geared to showcasing specific merchandise categories which Eckerd wants to highlight in its stores.

Rather than having customers view a sea of merchandise, through its new emphasis on fixturing to provide department identity, the drug chain is in effect aiming to achieve more of a boutique look in its stores.

Walking into the remodeled pharmaceutical area a customer just might feel "cleansed" by the blue and white fixturing which defines that department from all the others, observes Price.

And consider the wood-enhanced fixtures, which create the warmth that might be thought of as the calling card of the expanded greeting card department.

To Price, Eckerd's latest moves in improving the design of its stores through better fixturing are part of an overall effort to catch up to all the other retailers that no longer think of fixtures as merely a necessary appendage or a sea of racks for hanging merchandise.

Now, retailers across the board are looking to use fixtures to enhance their overall image. The only drawback, say industry watchers, is that the new emphasis on fixturing comes with a higher price tag.

According to *Chain Store Age Executive* research, drug store retailers last year spent an average of $6.08 per square foot for fixtures *(see accompanying charts)*. They are also embracing new fixture options.

"The trend emerging in display fixtures focuses on different types of textured metals in dark colors," says Michael Murphy, vp of Retail Planning Associates (RPA), Columbus, Ohio.

This is an example of fixtures that need to "highlight or accent merchandise display," he says, while particularly offering "strong identity to new items in the store."

While few retailers in the U.S. are using metal fixtures, says Bill Davis, senior vp-marketing, Merchandising Equipment Group (MEG) of Arlington Heights, Ill., "it is an emerging trend."

Actually, Europe is "doing a lot with metal" because the Europeans have more access to it than wood, he adds. But Davis suspects Americans will catch on.

According to Davis, wire material in chrome and colors is emerging as state-of-the-art, with colors being stronger than chrome.

"Emerging as one of the mainstay fixtures as a piece of decor to display merchandise and identify a department," Davis says, "the wire grid can handle a broad range of apparel that includes suits, sweaters and lingerie."

Although the wire grid surfaced in apparel and is primarily suited for soft goods, in the near future drug and supermarket chains may gravitate toward it, predicts Davis.

"Eventually it will find a niche in every retail category in identifying the shop-within-a-shop in their stores," he says.

He also predicts, "In the early 1990s a dramatic increase in the number of [colors] is expected to appear." This is dictated by retailers who are looking to achieve a unique look in their stores, observes MEG's marketing vp.

Colors on the horizon, he says, include teal, desert pinks, greenish blues and gray blends.

METAL SLATWALL: ACHIEVING GREATER DENSITY IN COSMETICS DEPARTMENTS

Lifespan for fixtures

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
5 years or less	13	10	5	5	25	5	25
6-10 years	48	45	40	35	50	45	70
11-15 years	20	30	15	40	5	25	5
16-20 years	13	10	25	20	10	15	—
20 years or more	1	5	—	—	—	—	—
Lifetime/permanent don't replace	3	—	15	—	—	—	—
As needed/required	1	—	—	—	5	—	—
Don't know/can't estimate	3	—	—	—	5	10	—
(MEAN NUMBER OF YEARS)	(11.8)	(12.4)	(12.9)	(12.3)	(8.7)	(11.9)	(7.9)

Source: *Chain Store Age Executive research*

"Coloration of fixtures must be in tune with or complement color of merchandise," adds Dominick Segrete of New York-based Segrete, Tucci & Rosen, a store planning architectural firm.

From a historic perspective, the trends in fixturing are surfacing because of a "total change in retailing itself," says RPA's Murphy.

Specifically, the shop-within-a-shop concept—popularized in department stores in their efforts to compete with specialty stores—is leading other types of retailers to embrace similar fixturing techniques. They are also becoming more experimental in selecting the actual fixtures to place in the stores.

For example, Murphy explains, "Textured metals in dark colors accent that special, individualized look." Overall, there is just "more play on specialty fixtures."

But the new trend in fixtures is "not a total reinventing of the wheel," he notes. Rather, manufacturers are "taking the standard fixture and adapting the new types of metals that are out there in the industry to the new type of design."

Manufacturers are starting with the basic fixturing needs of retailers—that include shelved, pegged, humped and platform—and adding to it.

For instance, platform fixtures have been and still are made of wood with a plastic laminate, notes Murphy. Now, manufacturers will take the same platform dimensions and apply new types of material such as perforated metal. Another example is to upgrade the look of a standard gondola by replacing the pegboard panel with a slatwall panel.

"Slatwall was hot, is hot and will continue to be strong," adds Davis. Originally used in apparel, right now slatwall fixtures can be seen in every retail category, he says.

The fixturing advantage, according to Davis, is that you can put merchandise as close together as you want to get optimal amount of merchandise displayed.

"Retailers want the store [design] to have impact, but they really want merchandise to be seen," he says.

Better utilization of space is something Eckerd is closing in on. The drug chain has gone to Orange, Calif.-based Uniweb's metal slatwalls—1 in. on center—to achieve greater density of product in its cosmetic department, since cosmetics encompass a high amount of peg items, explains Price.

In fact, the fundamental requirement of a fixture is to allow for "capacity and exposure," says Larry Mundorf, senior marketing vp for Canton, Ohio-based Camelot Music, a 215-store home entertainment software chain featuring records, compact discs and videos.

The new thinking continues to improve on fundamentals of fixturing, says Mundorf. As store space gets smaller due to economics, retailers are looking to go up with merchandise.

According to Mundorf, 4 ft. high fixtures used to be standard. Now, 6 ft. to 8 ft. high fixtures—an evolution in height that surfaced in the last couple of years—are becoming more prevalent in all retail categories.

The advantage to elevating fixtures, adds Mundorf, is that you can achieve greater "exposure" of merchandise.

In Camelot's three Columbus, Ohio-area superstore prototypes, the chain makes use of 6½ ft. high end-capped, tower fixtures for exposing newly released "hot products."

Mundorf considers the fixture to be a specialty one, which plays more of a role in the overall contemporary design of the store. End caps, used for product category signage, are new to Camelot and fairly new to the entertainment sector of retailing, he adds.

Another new approach, says Mundorf, is clear plexiglass shelving, which Camelot also uses. Since the fixturing is clear, the product is better exposed while giving the illusion of hanging in mid-air.

The grocery industry is gravitating toward 4 ft. to 6 ft. fixtures for greater product exposure. Drug retailers, according to Price, are moving closer to grocery and mass merchandising. Eckerd is one chain doing more with display fixtures in that height bracket.

"You can increase inventory by 17% and site space by over 20%," he says, by using 4 ft. to 6 ft. fixtures over the standard height.

According to architect Segrete, higher fixtures are most appropriate in achieving a warehouse look. Higher fixtures, he says, should not be used exclusively throughout a store. But rather a mix in elevation should be used to define store departments.

Overall, there is no question that much more design in fixturing—encompassing color, materials and elevation—is being emphasized. ■

Cost per square foot for fixtures

	Total %	Discount %	Drug %	Supermarket %	Dept. %	Home Center %	Apparel Specialty %
Less than $3.00	21	10	10	—	20	40	45
$3.00-$6.00	28	25	50	10	30	25	30
$6.01-$9.00	10	25	15	—	5	5	10
$9.01-$12.00	11	25	10	10	10	5	5
$12.01-$15.00	4	—	—	10	10	5	—
More than $15.00	20	10	10	65	20	10	5
Don't know/no answer	6	5	5	5	5	10	5
(MEAN)	($8.06)	($7.95)	($6.08)	($14.97)	($8.39)	($5.72)	($4.51)

Source: *Chain Store Age Executive* research

Types of fixtures used

	Total %	Discount %	Department %	Apparel Specialty %
Small racks for accessories	85	70	90	95
Large racks for apparel	80	55	95	90
Showcases	72	75	80	80
Glass cubes	63	50	80	60
Gondolas	62	90	65	30
Shelving	12	—	—	35
Tables	12	15	20	—
Wall display units	10	5	5	20
All other mentions	23	40	5	25

Source: *Chain Store Age Executive* research

IF IT LOOKS LIKE MARBLE, TAKE A CLOSER LOOK

AS RETAILERS UPGRADE STORE IMAGE, NEW FLOORING MATERIALS SURFACE

As retailers upgrade the look of their stores, they're also upgrading flooring; luxurious wood and marble are everywhere.

Or are they? They might just be luxury vinyl composition tiles that at casual glance are almost indistinguishable from the real thing, yet offer greater durability and easier maintenance.

One company manufacturing such tile is San Antonio-based Azrock Industries. "The reason we actually brought out these products is because real wood and real marble are very popular right now. But there are disadvantages. We feel that our product [Azrock Luxury Vinyl Tile] is very durable, easy to maintain, and low-cost compared to the real thing," says Frank Dolan, Azrock's vp-sales.

The asbestos-free tiles are made from compound PVC resins and can be installed on, above or below grade on concrete, wood or plywood subfloors. Installation over existing vinyl is not recommended by the manufacturer. The tiles are also stain and fire resistant.

The tiles are available in designs resembling inlaid parquet, stripwood and marble, and are in 12 in. x 12 in. squares; the Century Marble pattern is also available in 12 in. by 18 in. dimensions. In addition, border patterns (consisting of strips, diamonds, or a combination of the two) are also available, to permit the retailer a great deal of customization.

Versatility can also come through the variety of colors in which the tile is available: parquet styles alone are available in smoke (gray), blush, teak, birch and bleached oak, while marble colors are in shades of beige and white, malachite and black.

Current price for the inlaid parquet is $7.70 per square foot; the cost is the same for the 3 in. x 36 in. inlaid wood and 9 in. x 36 in. wood and marble borders. The Century Marble Squares are $6.40 per square foot. Azrock notes, however, that installed prices will vary throughout the U.S. depending on local labor, freight and other costs. The products carry a 10-year limited warranty.

Though less expensive than real wood or marble, the material is more costly than other tiles. Therefore, the tiles are used basically when an upscale look is absolutely necessary.

Often, this is required by the developers housing the stores, according to A. M. Carlin, director of construction of Pittsburgh-based General Nutrition Center (GNC). "Most of the developers in the last several years have taken the direction that they do not want vinyl composition tile in their malls because it looks inexpensive, cheap, etc. They want hard tile like a ceramic or a quarry, or they want real wood floors or carpet."

This presented a special problem for GNC because of the nature of its merchandise. "Needless to say, we are not the type of store that quarry tile or marble works for, because we have so many bottles; if you drop them they break," Carlin notes.

"Ceramics are a maintenance problem in the sense that if you break some lemon juice or grape juice or honey or something, you can clean it off the tiles, but it tends to sink into the grout, so the tile is green, but the grout is purple where the grape juice

VINYL COMPOSITION TILE: OFFERING DURABILITY AND EASIER MAINTENANCE

Cost per square foot for flooring

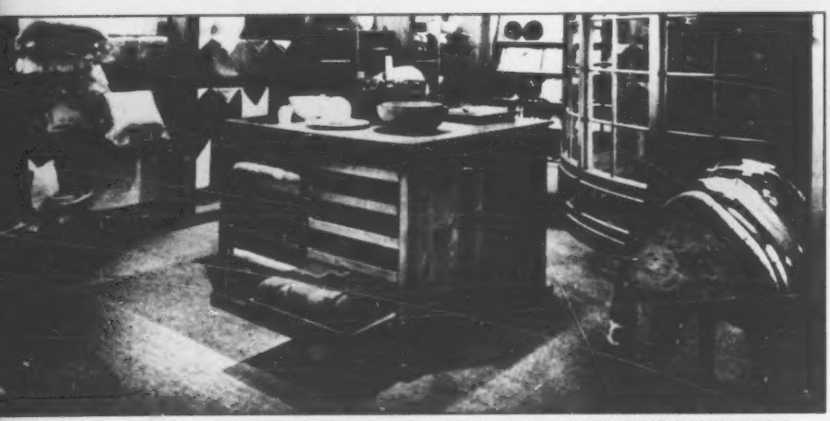
	Total %	Discount %	Drug %	Super-market %	Depart-ment %	Home Center %	Apparel Specialty %
Less than $0.50	8	10	10	–	–	30	–
$0.50-$1.00	36	45	45	55	15	50	5
$1.01-$2.50	37	40	40	30	45	10	55
$2.51-$5.00	12	–	5	15	25	5	20
$5.01-$7.50	3	–	–	–	5	–	10
More than $7.50	4	–	–	–	10	5	10
Don't know/no answer	1	5	–	–	–	–	–
(MEAN)	($1.91)	($1.12)	($1.25)	($1.50)	($3.03)	($1.25)	($3.26)

Source: Chain Store Age Executive research

Lifespan for flooring

	Total %	Discount %	Drug %	Super-market %	Depart-ment %	Home Center %	Apparel Specialty %
5 years or less	21	10	20	—	35	10	50
6-10 years	48	35	45	70	55	35	45
11-15 years	18	35	20	20	10	20	5
16-20 years	11	10	15	10	—	30	—
Lifetime/permanent don't replace	1	—	—	—	—	5	—
Don't know/can't estimate	2	10	—	—	—	—	—
(MEAN NUMBER OF YEARS)	(10.2)	(11.7)	(10.8)	(11.4)	(7.4)	(13.6)	(6.8)

Source: Chain Store Age Executive research



CARPETING: MORE PRACTICAL FOR RETAIL AREAS DISPLAYING SOFTGOODS

Types of flooring used

	Total %	Discount %	Drug %	Super-market %	Depart-ment %	Home Center %	Apparel Specialty %
Vinyl	68	60	65	60	65	60	40
Carpet	57	55	55	20	90	30	90
Quarry tile	46	50	40	60	60	5	40
VCT	43	75	30	50	50	30	25
Concrete	38	60	25	50	45	45	5
Terrazzo	20	5	20	25	45	15	10
Hardwood	16	—	—	—	70	10	15
Marble	13	—	—	—	70	—	10
Ceramic tile	7	5	15	10	5	5	—
Rubber/Rubberized tile	4	10	—	10	5	—	—
Granite	3	—	—	—	10	—	5
All other mentions	11	10	5	20	15	10	5

Source: *Chain Store Age Executive research*

sank. [In addition,] the floors are very difficult to walk on," he continues.

Carpeting presents an even greater problem: possible infestation, Carlin adds. "If you spill some honey on it or drop the granola bars, you get bugs. You can't keep it clean enough to feel comfortable that you do not have an infestation situation. That leaves, in our case, vinyl composition," Carlin insists.

The Azrock tile fit the bill; Carlin estimates it's now being used in between 30 to 50 GNC stores. "It looks absolutely marvelous. We jumped on it because when it's down and installed correctly, the average person, and even some designers who have seen our stores with it down, would say, 'Look at the nice wood floor that GNC put in; why can't I have that in my mall?' When you then tell them that it's a vinyl, they just don't believe it until they examine it because it is such a high quality," he says.

It's also fairly easy to maintain that quality, according to Carlin. Maintenance is "great, because the wood look cleans up with just mild detergent and water, sometimes just damp mopping with clear water is all it takes because it has a silicon finish to it." This, in fact, makes it easier to maintain than other vinyl composition tiles, which must occasionally be stripped and waxed.

Larger stores are getting the best of both worlds, according to Azrock's Dolan. Regular vinyl composition tile may be used in high traffic areas, with more upscale departments making use of the marble or wood tile.

Thus, the next time a customer or competitor is impressed by the nice wood or marble floor, he should think again. Things aren't always what they seem. Says Dolan, "It looks so much like real wood and marble people think it's real—but it's a resilient tile." ■

SUPERMARKET STRIPS AWAY DULL PROBLEMS

CHAIN GETS FREEDOM TO BRING SHINE TO FLOORS

When Bob Brodbeck, president of Dick's Supermarket chain opened a new store in Prairie du Chien, Wis., things didn't turn out exactly as expected.

When opening a new unit, a retailer might anticipate some roadblocks, but one that Brodbeck did not count on was a problem with the store's floor.

This seven-store chain of upscale supermarkets prides itself on a clean and inviting atmosphere for its shoppers. Dull floors do not fit into its image. (Dick's is a division of Brodbeck Enterprises, based in Platteville, Wis. Store sizes for the supermarket chain range from 25,000 sq. ft. to 45,000 sq. ft.)

Because the chain is upscale, choosing shiny floor tiles is a way to tell customers that Dick's prides itself on a crisp environment, meticulous maintenance crews and customer service.

When the tiles for the new store arrived and were laid, conditions were normal. As is customary, after the floor was in place Dick's maintenance crew applied a conventional stripper to the floor in order to remove the manufacturer's protective mill coating.

(The coating is applied at the plant to protect the tile during manufacturing and installation. It also helps keep the tiles from sticking together during shipping.)

Once the coating was removed, a floor finish manufactured by Johnson Wax was applied to make the floor shine.

"Everything appeared to be fine, but then two days after the grand opening, the wax finish started to powder, meaning that the wax did not bond to the tile. This meant that the original coating had not been removed properly," explains Brodbeck.

"Not defeated yet, we stripped it again and ended up going a lot stronger with the chemical solution. We checked and made sure everything was right; it was. But, even then, we still couldn't get the coating to come

Lifespan for flooring maintenance equipment

	Total %	Discount %	Drug %	Super-market %	Depart-ment %	Home Center %
5 years or less	36	30	55	40	25	30
6-10 years	20	10	25	30	5	30
11-15 years	5	10	—	5	5	5
16-20 years	1	—	5	—	—	—
Lifetime/permanent don't replace	2	—	10	—	—	—
As needed/required	1	—	—	5	—	—
Mall our outside supplier handles	12	35	—	5	5	15
Don't know/can't estimate	23	15	5	15	60	20
(MEAN NUMBER OF YEARS)	(6.5)	(6.8)	(6.5)	(6.1)	(6.3)	(6.7)

Source: *Chain Store Age Executive research*

off," he says.

He contacted Johnson Wax (Racine, Wis.) to try to develop a solution to the problem. His complaint was not the first that Johnson Wax had received. In fact, this same thing had been happening to some of their other clients including Wal-Mart, the Bentonville, Ark.-based discount store operator.

"We heard complaints from about 12 different retailers, each of which operate several units. They all claimed that our wax finish was not adhering to the floors in their stores. It took a total of six months to detect the problem," says Monte Becker, manager of technical services for Johnson Wax.

The tile manufacturer's coating is composed of polyethylene wax and acrylic polymer and, according to Becker, it is the ratio of these two substances that seemed to be causing the problem. The coating is not compatible with typical water base floor finishes.

Johnson Wax's solution to this unpleasant floor condition is a new product called Freedom which Dick's maintenance crews began using to strip their floors.

"Freedom is a water-base solution which contains a solvent. The solvent makes it different from a conventional stripper because it dissolves or softens the factory coating," explains Becker.

The solvent is also used to remove the wax coating so that a new one can be applied. The frequency of this process depends on the retailer and the appearance of the floors in a particular store, says Becker.

While Johnson Wax developed a product that alleviates this problem, Becker also notes that some tile manufacturers are in the process of revising their coating composition. This

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will allow retailers to use traditional stripper products successfully, he says.

Becker also notes, "Not being able to get rid of the coating is a common problem. It is not just product-related either. It is also a result of how thorough a job the operators do. A meticulous crew would have to spend more time, but it can be taken off. Freedom covers human error and it saves a person between 10% to 15% the amount of time."

Freedom is also more costly than a traditional floor stripper. Becker estimates that it is about 50% more expensive.

This, however, has not been a problem for Dick's. Due to their ongoing maintenance program, they have virtually eliminated the need to strip their floors.

To supplement the Freedom solution Dick's maintenance crew uses an ultra high speed system which includes scrubbing with a Clark floor machine and Johnson's View detergent. This is supplemented by damp mopping the areas the machine can't reach.

The floor is then burnished with a high-speed, 1,500 rpm burnisher twice a week which preserves the floor finish.

"Our store standards are very high. Choosing to use this more expensive product comes down to a company's philosophy and the way we function," says Brodbeck.

"Our customer deserves an atmosphere that is conducive to shopping and one that is very clean. The level of cleanliness is the way a retailer should maintain his stores and his standards," says Brodbeck.

"Therefore, the extra cost is worth it to us." ■

Cost per square foot for flooring maintenance

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
Less than $0.10	24	25	50	15	5	25
$0.10-$0.14	8	10	10	5	5	10
$0.15-$0.25	9	15	10	10	—	10
$0.26-$0.50	11	10	15	5	5	20
$0.51-$0.75	3	10	—	—	—	5
$0.76-$1.00	1	—	—	—	5	—
$1.01-$2.00	6	—	—	10	20	—
More than $2.00	1	—	—	—	—	5
Individual store handles it	9	25	—	15	—	5
All other mentions	3	—	5	5	5	—
Don't know/no answer	25	5	10	35	55	20
(MEAN)	($0.36)	($0.22)	($0.13)	($0.45)	($0.93)	($0.37)

Source: *Chain Store Age Executive* research

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CEILING DESIGN OPTIONS DEFINE CHAINS' IMAGE

CAMELOT MUSIC'S OPEN-CELL CONCEPT ADDS 'SEX APPEAL' TO STORES

Ever thought of a ceiling as sexy? That's the term Larry Mundorf, senior vp of Camelot Music uses to refer to the open-cell ceilings used in the chain's three Columbus, Ohio, prototype stores. He claims these add "sex appeal" to the overall design.

The design strategy behind the 3,000-sq.-ft. open-cell ceiling is to make it a dominant factor in drawing customer traffic into the center of the store, says the executive for the 215-store Canton, Ohio-based music store chain.

The open-cells at Camelot's 10,000-sq.-ft. Columbus stores create a spacious mood, he says. In the center of the store, where Camelot screens "hot" music videos on a TV wall in a wide-open, 900-sq.-ft. area, the ceiling invites the customer in to shop. In the perimeter area, Camelot displays records, compact discs, tape cassettes, music videos and movies.

The mood created by the ceiling is due to its 3 ft. elevation from the perimeter ceiling. The perimeter—a traditional 10-ft.-high ceiling done in 2 ft. by 2 ft. gray lay-in tile—provides a bold contrast to the open-cells. It is the contrast in elevation that draws the customer's eye into the center of the store.

Camelot Music is not alone in putting greater emphasis on ceiling design, says Jim Armour, spokesman for Lancaster, Pa.-based Armstrong World Industries.

"We've seen a shift in where money is spent," he says. "Generally 2%-3% of total building cost is allotted to a ceiling for new store construction," notes Armour. "But some people are spending 3%-4%. In fact, Armstrong has seen 20% of its retail clients move into the 3%-4% category," he says.

"Retailers are looking for higher style," observes Bill Martin, marketing manager for Charlotte, N.C.-based Alcan Ceiling Products, Camelot's open-cell ceiling supplier.

Supermarkets, for example, are varying ceiling heights as a device to differentiate departments, Martin notes. The open-cell structure is dropped from the existing ceiling, while the department on the floor is lit exclusively through the open cell.

According to Carl Burgeson of Chicago-based USG Interiors, a narrower exposed grid system and flush-mounted systems are additional trends. The grid is less exposed for a "more tailored look," explains Burgeson.

One of the big advantages of the panel grid system is that it allows for updating. For instance, he says, "Sears has not been satisfied with anything they have done, and they keep experimenting."

"Options in ceiling construction are what retailers are dictating," says Alcan's Martin. "Retailers are becoming more sensitive to the image they create and have realized that consistency in store design is needed to create and maintain image." ■

Types of ceilings used

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
2x4 ft. lay-in panels	74	80	100	85	55	65	60
Acoustical	33	40	65	25	30	20	15
2x2 ft. lay-in panels	26	15	10	20	70	10	30
Tegular 2x4 ft. lay-in panels	15	5	20	10	15	–	40
Tegular 2x2 ft. lay-in panels	10	–	10	–	30	–	20
Plaster	9	10	–	5	25	–	15
12x12 concealed spline	9	10	10	5	20	–	10
Dry wall	4	–	5	–	15	–	5
Sheet rock	3	–	10	–	5	–	–
All other mentions	14	20	5	5	15	40	–
Don't know/no answer	5	15	–	5	–	10	–

Source: *Chain Store Age Executive* research

Lifespan for ceilings

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
5 years or less	5	10	—	—	5	5	10
6-10 years	36	25	45	35	20	30	60
11-15 years	21	15	15	20	30	25	20
16-20 years	23	30	30	25	30	15	5
21-29 years	2	—	—	5	5	—	—
30 years or more	2	—	—	5	—	5	—
Lifetime/permanent don't replace	5	—	10	5	10	5	—
Don't know/can't estimate	8	20	—	5	—	15	5
(MEAN NUMBER OF YEARS)	(13.9)	(13.4)	(13.1)	(17.6)	(15.2)	(13.9)	(10.4)

Source: *Chain Store Age Executive* research

Cost per square foot for ceilings

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %	Apparel Specialty %
Less than $0.50	8	5	5	—	5	25	5
$0.50-$1.00	45	45	50	60	35	60	20
$1.01-$2.50	29	25	40	20	35	—	55
$2.51-$5.00	8	5	5	5	15	—	15
More than $5.00	1	—	—	—	—	5	—
Don't know/no answer	10	20	—	15	10	10	5
(MEAN)	($1.35)	($1.22)	($1.28)	($1.16)	($1.62)	($0.99)	($1.78)

Source: *Chain Store Age Executive* research

HVAC SYSTEMS: SUITABILITY IS THE KEY

FOR SOME RETAILERS, MORE SOPHISTICATED EQUIPMENT ISN'T NECESSARY

Despite the great technological advances abounding in all areas of retail, changes in the function of HVAC systems haven't really been revolutionary.

"There have been some advances in air-conditioning technology, but in reality the concerns and problems that have occurred through the years are still occurring. It's a piece of machinery, and as such, things go wrong," says Arthur J. Benson, president of-Tuckahoe, N.Y.-based SureAir. The firm specializes in management of HVAC, plumbing and electrical services with more than 250 retail chains among its clients.

Lifespan for HVAC						
	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
5 years or less	7	5	10	5	—	15
6-10 years	13	20	15	—	20	10
11-15 years	32	30	40	30	25	35
16-20 years	34	30	35	50	35	20
21-29 years	5	5	—	5	10	5
30 years or more	2	—	—	—	5	5
Lifetime/permanent/ don't replace	1	—	—	5	—	—
As needed/required	3	10	—	—	—	5
Don't know/never replaced	1	—	—	—	—	5
Don't know/can't estimate	2	—	—	5	5	—
(MEAN NUMBER OF YEARS)	(15.8)	(14.8)	(14.1)	(17.3)	(17.1)	(15.6)

Source: *Chain Store Age Executive* research

Cost per square foot for HVAC						
	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
Less than $0.10	2	—	5	—	—	5
$0.10-$0.14	7	10	—	—	5	20
$0.15-$0.25	7	5	15	5	5	5
$0.26-$0.50	6	5	—	—	10	15
$0.51-$0.75	9	20	—	5	10	10
$0.76-$1.00	7	5	15	—	5	10
$1.01-$2.00	20	20	10	40	15	15
More than $2.00	36	35	50	40	35	20
All other mentions	1	—	—	—	5	—
Don't know/no answer	5	—	5	10	10	—
(MEAN)	($1.45)	($1.39)	($1.65)	($1.82)	($1.48)	($0.97)

Source: *Chain Store Age Executive* research

Advances have, of course, occurred. These include the increasing computerization of controls. Still, Benson says, "Depending on the size of the store; the more sophisticated control systems for the much smaller space retailer just don't make any sense whatsoever," says Benson.

As a "smaller" retailer (in terms of square footage), Bob Henderson, vp-construction at Stamford, Conn.-based Waldenbooks, agrees. "We have stayed away from the computerized thermostat in our divisions because of the size of the stores; it's not like it's a department store or a 12,000-to-15,000-sq.-ft. ready-to-wear in a mall."

Again, people are another factor in that decision. With normal employee turnover, constantly training newcomers would be a major difficulty, Henderson adds. "And [the systems] are tricky. To educate the layman in the field to do it consistently in our 1,000 stores doesn't pay for us."

Benson notes, though, that many companies still buy expensive pieces of air-conditioning equipment and "then they say, 'Well, it's up there and it's running and it's nice, and it's cool, we're just going to keep it running. And we'll never change the filters, and if something happens, we'll buy a new one.' People actually still *do* that," Benson adds.

This could be especially dangerous for mega-unit chains; after all, climate control must be adapted to individual climates, Henderson points out.

"Our designers are in a position to design the store on the basis of its location," he explains. "So they'll give you, naturally, more air-conditioning in a Virginia store than in Alaska or Michigan, and you'll get more heat in Alaska than Florida. That goes without saying."

Even the best designs occasionally have a glitch, however. In Waldenbooks' Norfolk, Va., store, paperback covers began to curl due to excessive humidity. The installation of an expensive and complicated dehumidification system was considered.

Benson's company was then called in for a corporate "second opinion." SureAir found that the chilled water system used at the store was more than twice the size needed for the occupied space; through the temperature level was fine, the store was left with far too much humidity. With a reduction of fan speed and water flow through the coil, the problem was solved at a total cost of $110.

"Again, it's the design of the location," says Henderson. "In pockets across the country where you do have the heat or humidity problem, the designer has to compensate accordingly. In a candy store, the candy would have melted. In my particular case, the pages curled."

Still, there are too many retailers acting like customers when it comes to HVAC: they only notice it when something's wrong, says Benson. "When you look at what goes into a retail store, the air-conditioning system they're putting in is probably the single most expensive thing they're doing."

He adds, "If you walk into a store in the middle of summer and it's 95°F outside and the temperature inside that store is also 95°F, how long are you going to stay in?"

Benson guesses not long. "If you don't have something you should have, you'll lose customers." ■

BLOOMINGDALE'S SOLVES MULTI-LEVEL PROBLEMS

HEADQUARTERS STORE PRESENTS UNIQUE REROOFING AND REPAIR CHALLENGES

In the past whenever Bloomingdale's in New York City had a leaky roof, it was never easy to fix. In fact, half of the battle for its engineer and maintenance crews was finding the leak's origination and then digging through layers and layers of built-up roof (BUR) material.

"The Bloomingdale's flagship store had an old roof and to complicate the situation further, the building is built on different levels so the roof covers different heights," says Allen Jacoby, president of Encino, Calif.-based Burtech Consultants. Burtech worked with Bloomingdale's in eventually solving most of its roofing problems at the headquarters store.

Jacoby adds that relating to the New York store's roof, "There had also been a lot of professional and unprofessional repairs made. As a result, some of the levels had four to five layers of BUR material on them."

According to Andy Greene, capital project manager for the store, the age of various sections of the roof ranged from five years to 55 years on different levels. As somewhat of an understatement, he adds, "In some parts, it was a very old roof and something obviously needed to be done."

Specifically, he recalls that before Burtech came into the picture, "We had numerous leaks and because the roof had been repaired by so many people, we had to bring in a different person for each of the levels when additional work had to be done. This meant that we were expending a lot of money on an annual basis just to take are of necessary repairs."

Problems in finding a leak in the Bloomingdale's roof were compounded by the fact that the roof was covered by a layer of gravel.

"In addition, if a mechanic went up on the roof to make a repair, he had equipment with him that might punch a hole in the material. Such a leak would not show up right away. Often, by the time anyone noticed it, it was already a problem," explains Jacoby.

Tiring finally of the complicated, expensive repairing process, and after evaluation and inspection of different roofing materials, the Bloomingdale's management team finally decided to replace the existing, conventional BUR with Owens Corning Fiberglas's Durbigum SP system.

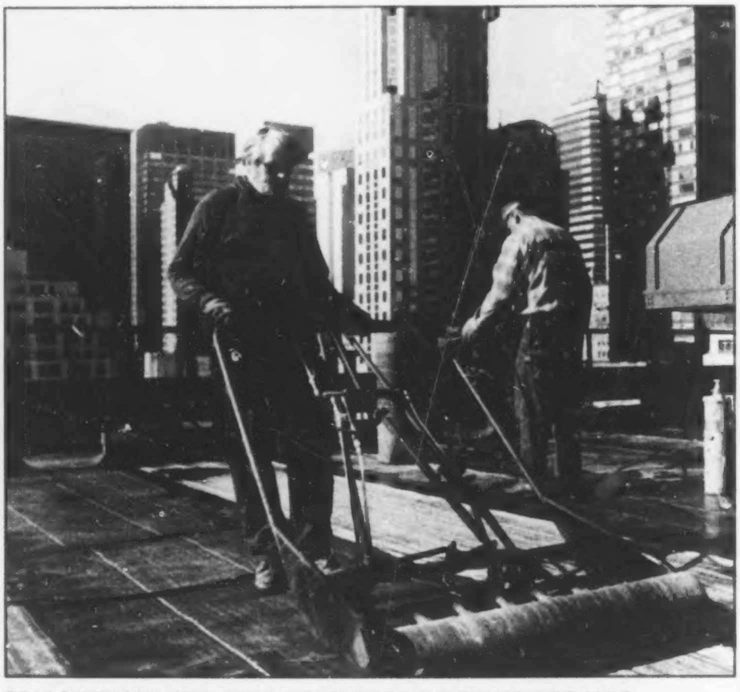
According to Jacoby, the cost to install the roof was more than $1 million. At press time, the roof is still being installed and is scheduled to be completed by the end of this month.

The Durbigum SP system is a modified bitumen product which, according to Jacoby, incorporates the benefits of both a BUR and a single-ply material.

The modified bitumen consists of asphalt which has been made stronger by such materials as fiberglass and polyester. All of these products are laminated together and the finished product comes in sheets. Therefore, the system has the components of a BUR and the design of a single-ply material, says Jacoby.

In addition, the product has been purposely designed to minimize the two conditions that contribute most to the deterioration of a roof: ultraviolet rays and oxidation.

Relating this to the problems experienced by Bloomingdale's physical supports team, "The purpose of the new installation at Bloomingdale's is



DRAGON WAGON: ATTACHING NEW ROOF AT BLOOMINGDALE'S, N.Y.C.

Cost per square foot for roofing

	Total %	Discount %	Drug %	Supermarket %	Department %	Home Center %
Less than $.50	4	–	5	–	–	15
$0.50-$1.00	14	10	25	–	10	25
$1.01-$2.50	54	60	40	75	50	45
$2.51-$5.00	18	25	20	20	15	10
More than $5.00	6	5	10	5	5	5
Don't know/no answer	4	–	–	–	20	–
(MEAN)	($2.28)	($2.45)	($2.41)	($2.45)	($2.37)	($1.77)

Source: *Chain Store Age Executive research*

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PHYSICAL SUPPORTS CENSUS

Types of roofing used

	Total %	Discount %	Drug %	Super-market %	Depart-ment %	Home Center %
BUR (Built-up roof)	86	80	90	50	80	30
Single-ply membrane	65	80	55	80	55	55
Metal	38	50	45	15	15	65
Fabric	12	5	20	5	20	10
All other mentions	13	25	5	10	15	10

Source: *Chain Store Age Executive* research

Lifespan for roofing

	Total %	Discount %	Drug %	Super-market %	Depart-ment %	Home Center %
5 years or less	1	5	—	—	—	—
6-10 years	16	15	15	20	15	15
11-15 years	32	50	45	30	20	15
16-20 years	42	30	35	40	50	55
21-29 years	2	—	5	—	—	5
30 years or more	3	—	—	5	—	10
Don't know/never replaced	2	—	—	5	5	—
Don't know/can't estimate	2	—	—	—	10	—
(MEAN NUMBER OF YEARS)	(16.5)	(14.4)	(16.1)	(16.5)	(16.8)	(19.0)

Source: *Chain Store Age Executive* research

to improve the roof's weatherability. This is one area where this product fares well," explains David Rich, product and development manager of commercial roofing membranes for Owens Corning.

"When oxidation occurs, the roof will crack and this ultimately affects the waterproofing component," he says. "This is how you get [moisture] inside."

Another advantage of the Durbigum SP system is the ease of its installation. Installers can apply it with a torch and it then automatically adheres to the roof deck. The next step is to apply a white reflective coating which is put on top of the sheet for the purpose of decreasing the amount of heat the roof can absorb. This ultimately results in significant energy savings for retailers who install this product, according to Rich.

"The white coating deflects the sun and therefore helps to keep the roof cooler," Jacoby reports. "In the summer the temperature on a black roof can get as hot as 160°F. Such a high temperature can cause the roof membrane to heat up and this causes eventual deterioration." (The Durbigum is designed to withstand variances in temperature in excess of 200°.)

In addition to problems with temperature swings, however, management was also concerned about the structural strength of the roof since that is where it has installed a great deal of equipment, including air-conditioning and cooling units. Therefore, strength and puncture resistance were also important criteria for the new roofing material.

Further, the roof has to be able to withstand a great deal of foot traffic. Most retailers usually have in-house maintenance crews who are capable of making routine examinations of the roofs and making minor repairs, observes Jacoby.

With the Durbigum system, if a repair has to be made on the roof, it is a simple process, he says. To carry out such repairs, all the repairman needs is a small burner.

"We leave the retailer with some extra bitumen sheets. The employee needs to cut the desirable amount for the repair, heat the bottom of it and place it over the hole. By using this process, the new seam becomes very strong, probably stronger than any other part of the roof system," says Jacoby.

Referring to the decision made by Bloomingdale's management team, "We wanted a unified roofing system throughout the building," recalls Greene. In the future, "When a guy goes to repair the 11th floor and the third floor, he will be able to use the same kinds of tools for both. It is less labor intensive." In the long run, that means less costly, too. ■

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with Shopping Center Age

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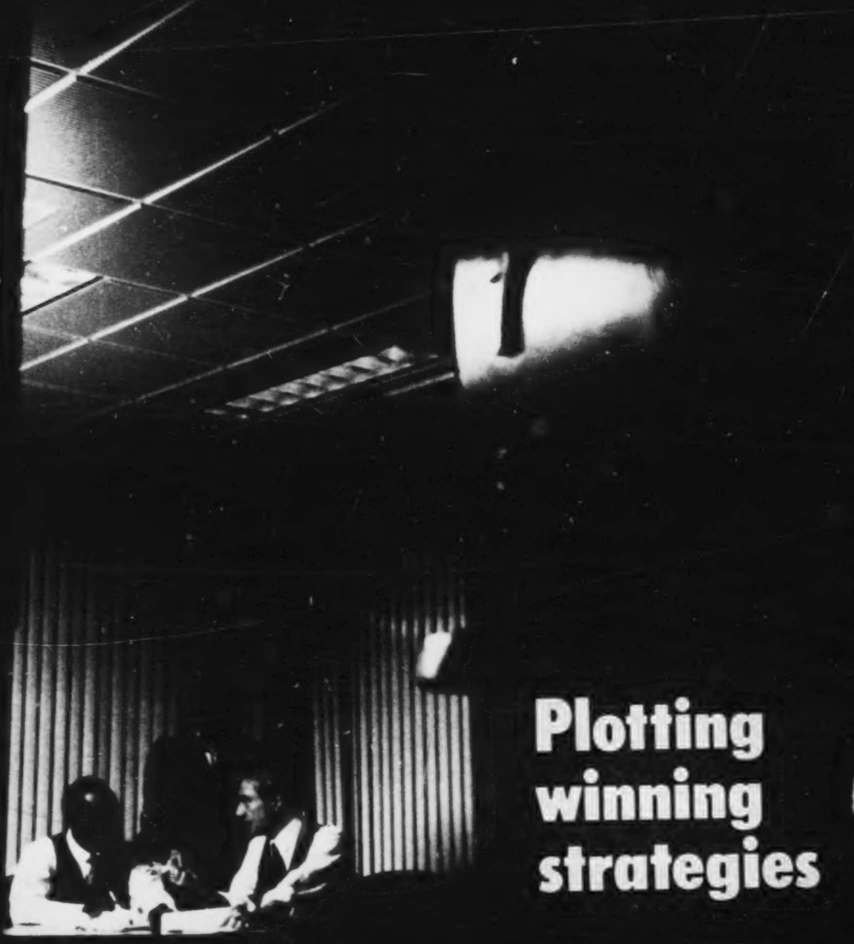
August 1988



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QUIK-CHEK

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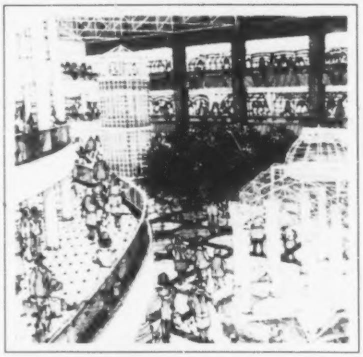

RETAILERS PICK THEIR FAVORITE DEVELOPERS

Retailers were asked by *Chain Store Age Executive* to rank who they believe are the best developers, based on various criteria. Their answers appear in this issue, along with developers' comments about what actions they took that helped them to enter the winners' circle. *33*

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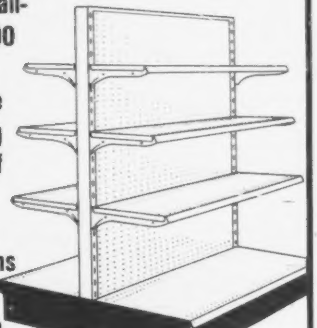

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WILLIAMS-SONOMA: SAN FRANCISCO-BASED CHAIN FINISHES IN FIRST PLACE ON THIS YEAR'S EXEC 100 SCORECARD

EXEC 100: RETAILING'S TOP ACHIEVERS

NEW PERFORMANCE INDEX HIGHLIGHTS COMPANIES WITH WINNING STRATEGIES

Williams-Sonoma, the San Francisco-based mail order and retail housewares operation that went public slightly over a year ago, emerges as the first place finisher in the EXEC 100 rankings of retail companies.

While in previous years the EXEC 100 listed the nation's largest retailers based on sales volume, this year heralds the debut of a brand-new performance index. This index includes year-to-year sales and profits percentage increases, plus return on assets, based on total assets as of the end of the most recent fiscal year.

Due to the amount of financial data needed to make accurate performance assessments, only publicly-held companies are rated. In addition, the rankings of some companies are adjusted to reflect unusual income gains and/or charges against earnings.

The companies who head the list are the retail industry's "high achievers." Along with Williams-Sonoma, other companies making the top five include Drug Emporium (which went public just last month), Home Depot, Tiffany and Businessland. What each of these companies have in common are well-defined retail concepts, strong operating controls and an ability to keep their customers' needs clearly in focus.

Admittedly, the new EXEC 100 index is somewhat biased in favor of some smaller firms (although companies with annual revenues of less than $100 million are excluded from the rankings). For them, hefty percentage increases are easier to come by than for large, well-established firms.

Still, the top 20 in this new ranking system include eight companies with sales well in excess of $2 billion annually. Among these is Wal-Mart, the nation's fourth largest publicly-held retailer, which captured the No. 11 spot. *(For full financial details, see accompanying chart.)*

The year 1987 wasn't a good one for the retail industry in general, but the rankings show that there were some standout successes.

For example, although as a group consumer electronics retailers suffered badly, Circuit City managed to achieve 34% sales growth, a 43% rise in profits and a return on assets of 12%.

Similarly, although it proved to be a tough year for the drug store business as well, Rite Aid holds the No. 15 spot and Big B, a real up-and-comer, is No. 9. *(For more on the drug store industry, see story this issue.)*

Even apparel retailers fared somewhat better than most industry observers would have expected. Gantos, with stores featuring a carefully edited mix of women's career apparel and weekend wear, took the EXEC 100's No. 13 spot.

Once-stellar performer The Limited didn't fare so well, though, ending up at No. 61. Earnings gains were only 3%, but that is beginning with a base of $227.8 million at the end of 1986 and which rose to $235.2 million last year. Sales increased a rather modest 12%, but nonetheless allowed the company to break the $3.5 billion annual sales mark.

The Limited's lackluster performance (when it comes to percentage increases, at least) is only one indication of the enormous changes that have taken place in the retail industry over the past year. Many of these are reflected on the EXEC 100 chart.

First and foremost are those changes caused by the mergers and acquisitions mania. Federated Department Stores, No. 54 on this year's EXEC 100 based on 1987's performance, but this year gobbled up by Campeau Corp., is but one example of a retailing entity that no longer exists. Not only will Federated itself not be back on next year's list, but other names are likely to disappear for the same reason.

Even when companies don't fall victim to a hostile takeover, they may still be forced to take evasive action to avoid such a fate. Often this means going private through a leveraged buyout. Such companies are also excluded from the EXEC 100.

Many experts believe that it won't be too long until the pendulum swings and several of these major players go public again.

In the meantime, there are a host of up-and-comers entering the public arena. For the most part, their success illustrates some of the major shifts in consumer preferences—and the growth of new retail sectors.

For example, it's only been a few years since deep discount drug stores

EXEC 100

Chains	1987 Sales (millions)	1986 Sales (millions)	% Change	1987 Earnings (millions)	1986 Earnings (millions)	% Change	1987 Earnings as % of sales	1986 Earnings as % of sales	Return on equity	Return on assets	Existing units 1987	Units to be added 1988
1. Williams-Sonoma	$ 136.8	$ 100.4	36.0	$ 3.4	$ 1.2	183.0	3.0	1.0	17.0	16.0	86	14
2. Drug Emporium	322.2	241.0	34.0	4.5	1.5	141.0	1.0	0.7	18.0	9.0	137	N/A
3. Home Depot	1,453.7	1,011.5	44.0	54.1	23.9	127.0	4.0	4.0	22.0	10.0	75	21
4. Tiffany	230.5	182.5	26.0	16.2	7.4	118.0	7.0	4.0	14.0	12.0	10	1
5. Businessland	600.0	404.3	48.4	8.4	4.8	75.0	1.0	1.0	9.0	3.0	94	N/A
6. Circuit City	1,350.4	1,010.7	34.0	50.4	35.3	43.0	4.0	4.0	29.0	12.0	105	20
7. The Sharper Image	160.9	121.0	32.0	5.6	3.2	75.0	3.0	2.0	34.0	10.0	45	16
8. Costco	1,370.0	747.0	83.0	5.1	4.5	13.0	0.3	0.6	6.0	1.0	42	9
9. Big B	249.0	210.0	18.0	7.3	4.5	62.0	2.0	2.0	12.0	7.0	188	25
10. Wolohan Lumber	228.6	194.3	17.0	9.0	5.3	69.0	3.0	2.0	22.0	10.0	42	5
11. Wal-Mart	15,959.0	11,909.0	34.0	627.6	450.1	39.0	4.0	4.0	28.0	12.0	1,198	147
12. Agway[1]*	205.1	225.9	9.0	2.9	1.7	71.0	N/A	N/A	N/A	4.0	N/A	N/A
13. Gantos	133.0	98.4	35.0	6.2	4.5	37.7	5.0	5.0	22.0	9.0	84	23
14. Hechinger	725.1	588.4	23.0	41.9	28.2	49.0	6.0	5.0	16.0	7.0	79	7
15. Giant Food	2,721.3	2,528.5	7.0	75.6	46.5	63.0	3.0	2.0	23.0	9.0	144	4
16. Rite-Aid	2,486.3	1,756.7	42.0	144.5	78.0	85.0	6.0	4.0	28.0	12.0	2,233	50
17. Food Lion	2,900.0	2,400.0	21.0	85.8	61.8	39.0	3.0	3.0	21.0	11.0	475	100
18. Toys "R" Us	3,137.0	2,445.0	2.8	204.0	152.0	34.0	7.0	6.0	20.0	10.0	387	80
19. Dress Barn[2]	173.7	135.8	28.0	12.9	9.2	40.2	7.0	7.0	39.0	21.0	263	52
20. Pier 1 Imports	327.2	262.3	25.0	16.1	12.0	34.0	5.0	5.0	19.0	6.0	396	N/A
21. J. Baker	200.7	165.8	21.0	7.5	6.4	17.0	4.0	4.0	23.0	24.0	81	35
22. Seaway Food Town	457.8	423.6	8.0	2.6	1.7	53.0	0.5	0.4	12.0	2.0	73	N/A
23. Pace Membership Warehouse	939.6	595.1	58.0	7.7	(1.1)	N/A	0.8	N/A	8.0	3.0	32	4
24. L. Luria & Sons	205.2	172.4	19.0	6.3	4.6	37.0	3.0	3.0	10.0	5.0	43	8
25. Tandy	3,452.0	3,035.0	14.0	242.3	197.7	23.0	7.0	6.0	18.0	23.0	7,318	N/A
26. Fay's Drug	500.4	452.3	11.0	5.9	4.1	44.0	1.0	1.0	11.0	4.0	185	25
27. Fred Meyer	1,874.8	1,688.2	11.0	32.0	22.5	42.0	1.0	1.0	15.0	5.0	99	4
28. Price	3,323.0	2,666.6	25.0	73.3	58.9	24.0	2.0	2.0	30.0	9.0	34	4
29. Dollar General	588.4	564.8	4.0	6.5	4.3	51.0	1.0	1.0	6.0	3.0	1,329	N/A
30. Merry-Go-Round Ent.	225.2	207.5	9.0	10.1	7.5	35.0	5.0	4.0	21.0	12.0	432	N/A
31. Nordstrom	1,920.2	1,629.9	18.0	92.7	72.9	27.0	5.0	5.0	19.0	8.0	56	3
32. U.S. Shoe	2,167.6	2,003.2	8.0	52.1	25.5	104.0	2.0	1.0	10.0	5.0	1,944	210
33. Wickes[1]*	1,083.8	785.8	38.0	57.3	25.3	126.0	N/A	N/A	N/A	14.0	174	N/A
34. Burlington Coat Factory	490.6	391.6	25.0	20.3	17.3	17.0	4.0	4.0	14.0	7.0	111	7
35. Hannaford Bros.	1,033.4	910.2	14.0	24.1	18.8	28.0	2.0	2.0	19.0	8.0	98	5
36. Circle K	2,289.0	2,111.3	8.0	49.4	39.2	26.0	2.0	2.0	19.0	14.0	3,507	N/A
37. Kroger	17,700.0	17,100.0	4.0	183.3	55.8	228.0	1.0	0.3	16.0	9.0	889	60
38. Dillard	2,206.3	1,851.4	19.0	91.2	74.5	22.0	4.0	4.0	15.0	6.0	135	7
39. Strawbridge & Clothier	814.3	739.1	10.0	27.0	20.7	30.0	3.0	3.0	5.0	5.0	34	1
40. Melville	5,930.3	5,262.4	13.0	285.4	238.3	20.0	5.0	5.0	21.0	13.0	6,117	352
41. Long's	1,772.0	1,635.0	8.0	49.2	38.6	27.0	2.0	2.0	16.0	10.0	229	13
42. Ames	2,111.9	1,888.5	12.0	34.2	27.1	26.0	2.0	1.0	9.0	4.0	488	45
43. MicroAge	203.0	164.8	23.0	3.5	(3.2)	N/A	2.0	N/A	39.0	19.0	199	N/A
44. The Gap	1,062.0	848.0	25.0	69.6	68.1	2.0	7.0	8.0	29.0	16.0	815	103
45. Pep Boys	553.8	485.9	14.0	34.3	28.1	22.0	6.0	6.0	16.0	7.0	207	47
46. Charming Shoppes	638.7	521.2	23.0	42.6	40.5	5.0	7.0	8.0	25.0	15.0	840	100
47. Kay Jewelers	367.9	278.1	32.0	10.5	9.7	8.0	3.0	3.0	23.0	3.0	443	N/A
48. Arbor Drugs	215.3	151.5	39.0	5.2	5.3	3.0	2.0	3.0	15.0	7.0	74	10
49. Super-Rite[3]	642.0	603.0	6.0	5.0	3.8	31.0	0.8	0.6	14.0	4.0	36	3
50. Albertsons	5,869.4	5,379.6	9.0	125.4	100.1	25.0	2.0	2.0	20.0	7.0	465	175

* Operating income ( ) Loss N/A Not available [1] Retail operations only [2] Figures for year ended July 30, 1987 [3] Includes results from distribution operations

EXEC 100

Chains	1987 Sales (millions)	1986 Sales (millions)	% Change	1987 Earnings (millions)	1986 Earnings (millions)	% Change	1987 Earnings as % of sales	1986 Earnings as % of sales	Return on equity	Return on assets	Existing units 1987	Units to be added 1988
51. F. W. Woolworth	$ 7,134.0	$ 6,501.0	10.0	$251.0	$214.0	17.0	4.0	3.0	16.0	13.0	3,127	N/A
52. Oshman's	332.7	322.9	3.0	3.6	2.7	33.0	1.0	1.0	6.0	3.0	213	12
53. J. C. Penney	15,332.0	14,740.0	4.0	608.0	478.0	27.0	4.0	3.0	14.0	6.0	1,785	N/A
54. Federated Dept. Stores	11,117.8	10,512.4	6.0	313.0	287.6	25.0	3.0	3.0	12.0	5.0	605	N/A
55. K mart	25,627.0	23,812.0	8.0	692.0	570.0	21.0	2.0	2.0	16.0	6.0	3,934	55
56. Super Valu[3]	9,371.7	9,065.8	3.0	111.8	89.3	25.0	1.0	1.0	18.0	5.0	171	N/A
57. A&P	9,531.3	7,834.8	21.0	103.4	95.0	8.0	1.0	1.0	13.0	5.0	1,183	36
58. May Dept. Stores	10,314.0	9,500.0	9.0	444.0	381.0	17.0	4.0	4.0	17.0	7.0	2,877	255
59. Weis Markets	1,128.3	1,101.5	2.0	76.0	65.3	16.0	7.0	6.0	18.0	14.0	116	N/A
60. Mercantile Stores	2,155.6	2,028.2	6.0	129.6	111.1	17.0	6.0	5.0	16.0	10.0	79	2
61. The Limited	3,527.9	3,142.7	12.0	235.2	227.8	3.0	7.0	7.0	31.0	15.0	3,095	125
62. Marsh	848.1	772.2	10.0	7.8	6.7	16.0	1.0	1.0	15.0	4.0	242	2
63. Lowe's	2,442.2	2,283.5	7.0	61.2	52.2	17.0	3.0	2.0	11.0	6.0	295	7
64. Best Products	2,066.6	2,142.1	4.0	30.5	(25.6)	N/A	1.0	N/A	8.0	24.0	216	0
65. Strober	101.6	92.4	9.0	5.3	5.0	6.0	5.0	5.0	22.0	12.0	12	2
66. Walgreen[4]	4,281.6	3,660.6	17.0	103.5	103.1	0.4	2.0	3.0	18.0	8.0	1,356	100
67. Bruno's[5]	1,143.2	1,018.4	12.0	31.0	30.3	2.0	3.0	3.0	16.0	10.0	109	15
68. Consolidated Stores	571.2	378.9	51.0	13.0	19.4	33.0	2.0	5.0	11.0	5.0	295	30
69. Publix	4,186.6	3,796.8	10.0	87.2	84.3	3.0	2.0	2.0	14.0	9.0	329	29
70. Ingles	666.9	590.7	13.0	9.2	8.6	7.0	1.0	1.0	11.0	3.0	122	18
71. Schulz Sav-O Stores	412.7	406.6	1.0	2.7	2.4	13.0	0.6	0.5	19.0	5.0	N/A	N/A
72. Hills Dept. Stores	1,514.3	1,343.1	13.0	32.5	(14.8)	N/A	2.0	N/A		4.0	151	16
73. American Stores	14,272.4	14,021.5	2.0	154.3	144.5	7.0	1.0	1.0	15.0	9.0	1,460	N/A
74. Service Merchandise	2,719.0	2,527.0	8.0	30.8	(46.9)	N/A	1.0	N/A	10.0	6.0	323	8
75. Jamesway	701.4	612.4	15.0	11.6	12.1	4.0	2.0	2.0	11.0	4.0	111	15
76. Sears, Roebuck[6]*	28,085.0	27,074.0	4.0	787.4	736.0	7.0	3.0	12.0	3.0	N/A	831	89
77. Wherehouse Entertainment	225.4	166.5	35.0	5.2	7.0	26.0	2.0	4.0	10.0	3.0	195	N/A
78. Ross Stores	576.0	534.4	7.0	11.5	(41.4)	N/A	1.0	N/A	11.0	4.0	131	15
79. Winn-Dixie	8,803.9	8,225.2	7.0	112.3	116.4	3.0	1.0	1.0	16.0	8.0	1,271	10
80. Hess's Dept. Stores	516.6	367.5	40.0	10.7	15.8	32.0	2.0	4.0	10.0	3.0	71	4
81. Deb Shops	198.4	181.4	9.0	12.0	12.6	5.0	6.0	7.0	22.0	15.0	273	N/A
82. Dayton Hudson	10,677.3	9,259.1	15.0	228.4	255.0	10.0	2.0	3.0	11.0	4.0	577	N/A
83. Family Dollar Stores	560.3	487.7	15.0	24.8	30.5	19.0	4.0	6.0	16.0	10.0	1,272	N/A
84. National Lumber	159.3	151.3	5.0	0.3	(2,421.0)	N/A	N/A	N/A	1.0	0.4	20	2
85. Batus[7]*	2,569.0	2,500.0	4.0	171.0	197.0	13.0	8.0	N/A	N/A	12.0	197	1
86. Cullum Cos.	1,002.7	1,036.4	3.0	18.1	18.0	0.5	2.0	2.0	15.0	6.0	66	2
87. Von's	3,276.0	2,953.5	11.0	1.6	(35.7)	N/A	0.4	N/A	1.0	0.1	193	10
88. Jacobson's	326.7	308.5	6.0	10.5	11.9	12.0	3.0	4.0	5.0	5.0	21	2
89. Paul Harris	190.2	161.0	18.0	4.7	6.2	24.0	3.0	4.0	10.0	4.0	347	50
90. Pay 'N Pak	398.4	333.8	19.0	5.7	8.1	30.0	1.0	2.0	6.0	3.0	100	6
91. Rose's	1,336.8	1,198.9	11.0	18.1	24.1	25.0	1.0	2.0	10.0	4.0	99	19
92. Genovese Drug	270.8	233.2	16.0	2.0	2.9	30.0	0.7	1.0	8.0	3.0	79	8
93. Scotty's	515.3	493.9	8.0	10.3	13.5	23.0	2.0	3.0	6.0	3.0	141	33
94. Highland Appliance	753.4	656.4	15.0	13.9	20.2	31.0	2.0	3.0	11.0	5.0	72	11
95. Lucky	6,924.8	6,440.9	8.0	151.7	225.9	33.0	2.0	4.0	5.0	12.0	481	N/A
96. Zayre	6,200.0	5,400.0	16.0	143.3	89.0	61.0	2.0	2.0	21.0	7.0	1,187	77
97. Petrie Stores	1,241.5	1,198.4	4.0	47.5	73.7	35.0	4.0	6.0	9.0	4.0	1,601	60
98. Sound Warehouse[8]	157.9	131.2	20.0	3.3	7.5	56.0	2.0	6.0	10.0	4.0	102	15
99. Payless Cashways	1,770.2	1,527.7	16.0	28.1	42.4	34.0	2.0	N/A	8.0	3.0	194	13
100. Clothestime	178.7	160.7	11.0	6.5	11.9	45.0	4.0	7.0	17.0	9.0	341	40

* Operating income ( ) Loss N/A Not available [3] Includes results from distribution operations [4] Fiscal year ended Aug. 31, 1987 [5] Fiscal year ended June 27, 1987 [6] Figures for Sears Merchandise Group only [7] Retail operations only [8] Fiscal year ended May 30, 1987

Source: Chain data and *Chain Store Age Executive* estimates

burst on the scene. Last month, the EXEC 100's second place finisher Drug Emporium, the first chain in this category to be widely publicized, completed a successful initial public offering.

Similarly, although office products warehouses are less than two years old, Office Depot has announced a public offering. Further, in computer-related retailing, the nation's largest computer retailer, ComputerLand, is going public. Recently, Egghead Software and Babbages, both leading retailers of computer software, also entered the public offering arena.

Along with EXEC 100 leaders Williams-Sonoma and Drug Emporium, two others in the top 10—No. 3 Tiffany and No. 6 The Sharper Image—also went public just last year.

Based on the success of these four companies, it's likely then that many of the newer companies that have completed offerings in recent months (as well as those preparing to do so soon) will be joining them in future years.

Other companies also likely to join the list are those publicly-held firms which in 1987 posted income losses. Aggressive efforts by management to achieve a turnaround should put a number of these back on next year's roster. ■

INDUSTRY'S LEADERS KEEP ON GROWING

WHILE 1987 WASN'T A ROBUST YEAR FOR RETAILERS, MOST OF THE MAJOR PLAYERS STILL MANAGED TO ACHIEVE MODEST SALES AND PROFITS INCREASES

DISCOUNT STORES

Top 10 publicly-held discount store sales leaders

	1987 sales	1986 sales	% change
K mart	$25,627.0	$23,812.0	8%
Wal-Mart	15,959.0	11,909.0	34
Zayre	6,200.0	5,400.0	15
Target	5,306.1	4,354.9	22
Ames	2,111.9	1,888.5	12
Bradlees	2,060.0	1,900.0	8
Fred Meyer	1,874.8	1,688.2	10
Hills Dept. Stores	1,514.3	1,343.1	13
Caldor	1,502.0	1,348.0	23
Rose's	1,336.8	1,198.9	11

Source: Company annual reports

Top 10 publicly-held discount store profit producers

	1987 net income (in millions)	1986 net income (in millions)	% change
K mart	$692.0	$570.0	21%
Wal-Mart	627.6	450.1	39
Target*	322.5	311.0	4
Zayre[1]	143.3	89.0	61
Venture*	70.0	80.0	(13)
Caldor*	56.0	70.0	(20)
Ames	34.2	27.1	26
Hills Dept.	32.5	(14.8)	N/A
Fred Meyer	32.0	22.5	42
Family Dollar	24.8	30.5	(19)

* Operating profits

N/A Not available

[1] Net earnings for the entire operation, reflecting profits from sale of shares in TJX Corp.

Source: Company annual reports

APPAREL STORES

Top 5 publicly-held apparel chain sales leaders*

	1987 sales (in millions)	1986 sales (in millions)	% change
Melville	$4,494.0	$4,003.8	12%
The Limited	3,527.9	3,142.7	12
U.S. Shoe	2,167.6	2,003.2	8
Petrie	1,241.5	1,198.4	4
The Gap	1,062.0	848.0	25

* Does not include companies which posted an income loss for their most recent fiscal year.

Source: Company annual reports

Top 5 publicly-held apparel chain profit producers*

	1987 net income (in millions)	1986 net income (in millions)	% change
Melville	$285.4	$238.3	20%
The Limited	235.2	227.8	3
The Gap	69.6	68.1	2
U.S. Shoe	52.1	25.5	104
Petrie Stores	47.5	73.7	(35)

* Companies that posted a loss in 1987 are not included.

Sources: Company annual reports

DRUG STORES

Top 5 publicly-held drug chain sales leaders

	1987 sales (in millions)	1986 sales (in millions)	% change
Walgreens	$4,281.6	$3,660.6	17%
Rite Aid[1]	2,486.3	1,256.7	42
Longs	1,772.0	1,635.0	8
CVS[2]	1,394.7	1,180.6	18
Pay 'n Save	726.1	555.1	30

[1] Rite Aid's figures, for its fiscal year ended Feb. 27, 1988, include results from the acquisition of 450 stores from SupeRx and from Gray Drug Fair.

[2] Melville Corp., CVS's parent company, releases separate sales and operating earnings for the drug chain.

Source: Company annual reports

Top 5 publicly-held drug store profit producers

	1987 net income (in millions)	1986 net income (in millions)	% change
Rite-Aid	$144.5	$78.0	85%
Walgreen	103.5	103.1	0.4
Long's	49.2	38.6	27
Fay's	11.0	5.9	44
Big B	7.3	4.5	62

Source: Company annual reports

DEPARTMENT STORES

Top 10 publicly-held department store/general merchandise sales leaders

	1987 sales (in millions)	1986 sales (in millions)	% change
Sears, Roebuck[1]	$28,085.0	$27,074.0	4%
J.C. Penney	15,332.0	14,740.0	4
Federated Dept. Stores[2]	8,530.8	8,163.4	5
May Dept. Stores[2]	6,205.0	5,773.0	8
Batus Retail	2,569.0	2,500.0	4
Dillards	2,206.3	1,851.4	19
Mercantile Stores	2,155.6	2,028.2	6
Nordstrom	1,920.2	1,629.9	18
Dayton Hudson Dept. Store Co.	1,552.3	1,566.3	(1)
Strawbridge & Clothier	814.3	739.1	10

[1] Includes sales of Sears Merchandise Group only

[2] Department store sales only

Source: Company annual Reports

Top 10 publicly-held department store/general merchandise profit producers (net or operating earnings)

	1987 earnings (in millions)	1986 earnings (in millions)	% change
Sears, Roebuck*[1]	$787.4	$736.0	7%
May Dept. Stores*[2]	618.0	557.0	11
J.C. Penney	608.0	478.0	27
Federated Dept. Stores*[2]	578.7	628.7	(8)
Batus Retail*	171.0	197.0	(13)
Mercantile Stores	129.6	111.1	17
Dayton Hudson Dept. Stores	122.4	165.8	(26)
Nordstrom	92.7	72.9	27
Dillards	91.2	74.5	22
Strawbridge & Clothier	27.0	20.7	30

* Operating earnings

[1] Sears Merchandise Group

[2] Dept. stores only

Source: Company annual reports

SUPERMARKETS

Top 10 publicly-held supermarket sales leaders

	1987 sales (in millions)	1986 sales (in millions)	% change
Kroger	$17,700.0	$17,100.0	4%
American Stores[1]	14,272.4	14,021.5	2
A&P	9,531.8	7,834.8	21
Winn-Dixie	8,803.9	8,225.2	7
Lucky Stores	6,924.8	6,440.9	8
Albertsons	5,869.4	5,379.6	9
Publix	4,186.6	3,796.8	10
Vons	3,276.0	2,935.5	11
Food Lion	2,900.0	2,400.0	21
Giant Food	2,721.3	2,528.5	8

[1] Includes results from Osco Drugs

Source: Company annual reports

Top 10 publicly-held supermarket profit producers

	1987 net income (in millions)	1986 net income (in millions)	% change
Kroger	$183.3	$ 55.8	228%
American Stores[1]	154.3	144.5	7
Lucky Stores	151.7	225.9	(33)
Albertsons	125.4	100.1	25
Winn-Dixie	112.3	116.4	(3)
A&P	103.4	95.0	8
Publix	87.2	84.3	3
Food Lion	85.8	61.8	39
Weis Markets	76.0	65.3	16
Giant Food	75.6	46.5	63

[1] Includes results from Osco Drugs

Source: Company annual reports

HOME CENTERS

Top 5 publicly-held home center sales leaders

	1987 sales (in millions)	1986 sales (in millions)	% change
Lowe's Cos.	$2,442.2	$2,283.5	7%
Payless Cashways	1,770.2	1,527.7	16
Home Depot	1,453.7	1,011.5	44
Hechinger	725.1	588.4	23
Scotty's	515.3	493.9	8

Source: Company annual reports

Top 5 publicly-held home center profit producers

	1987 net income (in millions)	1986 net income (in millions)	% change
Lowe's Cos.	$61.2	$52.2	17%
Home Depot	54.1	23.9	127
Hechinger	41.9	28.2	49
Payless Cashways	28.1	42.4	(34)
Scotty's	10.3	13.5	(23)

Source: Company annual reports

A number of major players are missing from these charts because they are private companies. This makes it very difficult to obtain in-depth financial data on these companies and almost impossible for fellow retailers to make accurate comparisons.

It's likely, though, that many of these will eventually reappear. Reports are that one or two are already preparing to resubmit themselves to the scrutiny of Wall Street.

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DEPARTMENT STORES FACE TOUGH YEAR

INDUSTRY CONSOLIDATION CONTINUES, BUT PROFITS ARE GETTING THINNER

ESTĒE LAUDER
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CASTNER KNOTT: PARENT MERCANTILE ADDED $1 BILLION IN SALES IN 10 YEARS

All the buying and selling certainly has put some excitement into department store retailing. Robert Campeau's promise to turn New York's Bloomingdale's into a national chain in itself has piqued broad interest.

The greater interest in department store retailing, however, does not seem to be ringing up either sales or profit gains. As measured by a number of key business yardsticks, 1987 was a tough time for even the best of department store operators. This year could be just as difficult.

Among the best is New York-based Mercantile Stores. In the last 10 years, Mercantile quietly has closed 26 stores and opened only 24 new ones. Just as quietly, the company has added more than $1 billion in sales and $100 million in profits—fueling its growth entirely from within.

Mercantile's $193 in sales per square foot now puts it in a league with such department store "power merchants," as R. H. Macy. Its 16.8% return on assets is one of the industry's highest. So, too, is Mercantile's $20.45 in operating profits per square foot (*see chart*).

Then there is Little Rock, Ark.-headquartered Dillard Department Stores. In only five years, the regional department store company aggressively has bought up new stores, more than doubling the number of units it operates.

Since 1984, Dillard's has picked up Stix, Baer & Fuller from Associated Dry Goods, John A. Brown and Diamond's from Dayton Hudson, R. H. Macy's former Midwest division, and both Cain-Sloan and Joske's from Allied/Campeau.

Along with mall developer Edward J. DeBartolo, this year Dillard's bought two more department store companies: Cleveland's Higbee's and Pittsburgh's Joseph Horne (*see accompanying chart*).

In the last five years Dillard's has added nearly $1.5 billion to sales and $70 million to profits.

Dillard's was one of the few department store companies that posted a hike in operating income (21%) that outpaced its sales gains (19%) last year. Operating income expressed as a percent of sales in 1987 beat even Mercantile's strong performance (10.7%, compared to 10.6%).

Both success stories contrast with the recent anemic pace of department store retailing. The weakness began in the third quarter of last year and only now gives indication of reversing.

In part, the spending slowdown was responsible for the unsuccessful attempt to acquire one department store chain in 1987 (Minneapolis-based Dayton Hudson) and the successful takeover of another in 1988 (Cincinnati-headquartered Federated Department Stores).

Those companies not immediately suffering a takeover attempt prepared for one anyway. Los Angeles-based Carter Hawley Hale, reeling from two takeover tries from Columbus, Ohio-headquartered The Limited, reorganized in 1987 to protect itself from more attempts to wrest control away from management.

The company spun off its prestigious Neiman-Marcus division along

1987 department store scorecard

Company	% change sales	% change operating income	Operating income as % sales	Average sales per store	Sales per gross sq. ft.	Operating income per gross sq. ft.	Operating income as % of assets
Allied/ Campeau[1]	N.C.	N.C.	10.3	$13,885,106	$149	$15.34	9.2
Dayton Hudson[2]	– 0.9	–26.2	7.9	41,954,054	199	15.71	16.1
Dillard's	+19.2	+21.0	10.7	16,343,311	119	12.76	15.8
Federated[2]	+ 4.5	– 8.0	7.9	30,633,613	157	12.46	12.8
Hess's[2]	+40.5	+ 8.2	7.6	7,275,563	68	5.18	25.9
May Co.[2]	+ 7.5	+11.0	10.0	24,050,388	138	13.73	15.4
Mercantile	+ 6.3	+ 4.0	10.6	27,286,747	193	20.45	16.8

[1] All figures in U.S. dollars. Includes results fron Ann Taylor specialty division
[2] Department stores only
N.C. = Not comparable
Source: *Chain Store Age Executive* research/annual reports

DILLARD'S: ACQUISITIONS ADD 53 STORES IN THE LAST THREE YEARS

Department store consolidation (1984-88)

Year completed	Divesting company	Unit	Acquiring company
1984	Associated Dry Goods	Powers Dry Goods	Allied Stores
1984	Associated Dry Goods	Stix, Baer & Fuller	Dillard Dept. Stores
1984	Dayton Hudson	John A. Brown	Dillard Dept. Stores
1984	Dayton Hudson	Diamond's	Dillard Dept. Stores
1984	Federated Dept. Stores	Bullock's North	Various retailers
1985	Federated Dept. Stores	Boston Store	Bergner
1986	Alexander's	Alexander's (42%)	Interstate Properties, Bass Groups
1986	Allied Stores	Total company	Campeau Corp.
1986	Associated Dry Goods	Total company	May Dept. Stores
1986	B. Altman	Total company	Private investor group
1986	BATUS	Gimbels, Frederick & Nelson and The Crescent	Allied Stores (Campeau Corp.)
1986	Carter Hawley Hale	John Wanamaker	Woodward & Lothrop
1986	R. H. Macy	Midwest division	Dillard Dept. Stores
1986	May Dept. Stores	Joseph Horne Co.	Maverick Fund I
1987	Allied Stores (Campeau Corp.)	Blocks, Inc.	Federated Dept. Stores
1987	Allied Stores (Campeau Corp.)	Cain-Sloan	Dillard Dept. Stores
1987	Allied Stores (Campeau Corp.)	Donaldson's	Carson Pirie Scott
1987	Allied Stores (Campeau Corp.)	Joske's	Dillard Dept. Stores
1988	Federated Dept. Stores	Total company	Campeau Corp.
1988	Federated Dept. Stores (Campeau Corp.)	Bullock's, Bullock's Wilshire and I. Magnin	R. H. Macy
1988	Federated Dept. Stores (Campeau Corp.)	Foley's and Filene's	May Dept. Stores
1988	Higbee's	Total company	Dillard Dept. Stores, Edward J. DeBartolo
1988 (pending)	Maverick Fund I	Joseph Horne Co.	Dillard Dept. Stores, Edward J. DeBartolo

Source: Merrill Lynch, Pierce, Fenner & Smith

with its Contempo Casuals specialty stores into a new company. General Cinema, Carter Hawley Hale's "white knight" in The Limited's initial takeover attempt, got a majority interest in the new company.

Despite general weakness in the industry, Carter Hawley Hale is not the only company to choose a department store focus. Chicago-headquartered Carson Pirie Scott divested itself last year of its food service and other unrelated divisions so that it, too, could concentrate its attentions on department store retailing.

New York-based R. H. Macy, meanwhile, tried to solidify its position as a national chain by doing battle with Toronto-headquartered Campeau Corp. for control of Federated Department Stores earlier this year.

Although it lost that battle, Macy still emerged with San Francisco-headquartered I. Magnin along with Los Angeles-based Bullock's and Bullock's Wilshire (*Chain Store Age Executive*, May 1988).

Given Federated Department Stores' drops (compared to 1986) in sales per store, operating income, operating income per square foot and return on investment, perhaps the twin assault on it should have been no surprise.

Yet even the strongest companies last year had trouble keeping up the brisk pace of 1986. Perhaps the hardest hit was Dayton Hudson's department stores, which, compared to 1986, recorded drops in overall sales, sales per store, sales per gross square foot, operating income, and return on assets.

In retrospect, it is ironic that the company touted for excellence in a best-selling book had fallen so quickly. Landover, Md.-based The Dart Group's father/son team of Herbert and Robert Haft still saw the excellence in Dayton Hudson, and their takeover try was thwarted only by the stock market crash.

One of the few exceptions to the department store industry's overall lackluster performance was Hess's, the Allentown, Pa., department store division of shopping center developer Crown American. Back in 1979, Hess's was the first department store company to be acquired by a developer. The relationship has paid off.

Since then, Hess's has grown from 16 stores to 71. In 1987 alone, it added 30 stores. Sales jumped 41% last year. Operating profits gained a more modest 8.2%.

Modest is the best way to describe the department store industry. Last year, even Mercantile and Dillard's posted drops in several key indicators. This year might be difficult, too.

Neither company will be a tempting takeover target. Mercantile's management controls a significant portion of the company's stock. Dillard's, on the other hand, has forged a retationship with developer Edward J. DeBartolo that both helps it expand without incurring significant debt, and at the same time makes it a less likely takeover candidate. ■

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DRUG STORE RETAILERS: IN THE PAST YEAR, 15 COMPANIES HAVE TRADED OR SOLD 155 INDIVIDUAL STORE LOCATIONS

DRUG STORE CHAINS GROW BY SWAPPING UNITS

BUYING EXISTING STORES FROM COMPETITORS CAN SOLIDIFY MARKET POSITION

Rite Aid has a strong market presence in Buffalo, N.Y., and management for the Shiremanstown, Pa.-based drug store chain wants to keep it that way. So when an opportunity to purchase 13 additional Buffalo area sites—nine Brooks Drug stores from Rhode Island-based Adams Drug and four units from Twinsburg, Ohio-headquartered Revco—popped up, Rite Aid executives jumped at the opportunity.

"Because we are so well established in Buffalo and have a major presence there, it made sense to buy these stores. The economies of scale—such as advertising and distribution—are in our favor," explains Philip Markovitz, Rite Aid's vp-real estate.

The chain already knows a thing or two about economies of scale. Rite Aid operates more than 2,000 stores nationwide. Sales for the year ended Feb. 27, 1988 were $2.5 billion.

Rite Aid, however, is not the first company to discover the benefits of buying up stores from—or in some cases swapping stores with—competitors to solidify its position in a strong market. Instead of acquiring entire chains, drug store retailers more frequently are purchasing individual units from other similar companies.

In the past year, according to *Chain Store Age Executive* research, 15 drug store companies have either traded or outright sold 155 individual store locations *(see chart)*.

All the store swapping and selling is benefiting both sellers and buyers. Stores that are sold usually are unprofitable for the owner. In turn, the buyer usually has an already-strong presence in an area, and adding units strengthens his position.

Another impetus to the buying and selling frenzy is the simple need to raise cash. Many companies, such as Revco and Clearwater, Fla.-headquartered Eckerd, need to sell stores to extinguish debt incurred in expensive leveraged buyouts. Eckerd went private via an LBO in April 1986. Revco took the same route—more successfully—later that same year.

One company that has taken advantage of the situation is 190-store Big B, based in Bessemer, Ala. Management for the $249 million drug chain purchased 13 units from cash-hungry Eckerd last year.

"Companies such as Eckerd are selling off some of their stores, and it is a chance for us to strengthen our own companies," says Mac Jones, executive vp for Big B.

All 13 units that Big B bought are located in Alabama, which is Big B's strongest market area. What's more, the conversion was simple because Eckerd's units there were approximately 9,000 sq. ft., comparable to the size of a typical Big B unit.

Like Eckerd, Revco has sold off stores to raise cash to pay off debt. Rite Aid has been the big beneficiary of the Ohio-based chain's troubles. In addition to picking up four locations in Buffalo, Rite Aid bought 11 Revco units in southern and central Florida.

"We sold the Florida stores to Rite Aid because we are in a sell mode now, not an acquisition mode. We are in a position of protecting existing markets," says Kathy Obert, public relations director for Revco. "Our philosophy is if we are not in a dominant position in a market, then we want to sell our stores," she adds.

The trend, however, is bigger than just cash-weak companies selling off to the cash-rich. Osco Drugs, a division of Salt Lake City-based American Stores, recently did a swap deal with Walnut Creek, Calif.-based Longs Drug Stores. Longs relinquished 14 of its units to Osco, and, in turn, purchased 11 Osco units. This enabled retailers to exit from weaker markets and enhance their presence in ones where they were already

Drug store acquisitions

Company	Acquisitions	Store locations
Big B, Bessemer, Ala.	13 Eckerd stores	Alabama
City Drugs, Panama City, Fla.	19 Revco stores	Texas
Eckerd, Clearwater, Fla.	7 Revco stores 3 Arbor stores	Birmingham, Ala. N.C. and S.C.
Revco, Twinsburg, Ohio	5 Eckerd stores	Brownsville, Tx.
Rite Aid, Shiremanstown, Pa.	9 Brooks stores 15 Revco stores	Buffalo, N.Y. Buffalo, N.Y. and central and southern Florida
Osco, Oakbrook, Ill.	14 Longs stores	Arizona
Longs, Walnut Creek, Calif.	12 Osco stores	California and Colorado
SupeRx, Phoenix, Ariz.	3 Walgreens 8 Defender Drug 2 United Discount - Drug	Alabama Arizona Arizona
Hook-SupeRx, Cincinnati	19 Eckerd stores	Virginia and West Virginia
PayLess NW, Wilsonville, Ore.	24 Osco stores 2 Longs stores	Washington, Idaho Oregon, California Arizona, Oregon

Source: *Chain Store Age Executive* research

strong.

"This was a move to gain market share for us. We gave Longs a stronger presence in northern California and they gave us a stronger presence in Phoenix and Tucson," says John Kromer, director of public affairs for Osco.

This kind of swapping will increase as competition in the retail drug industry intensifies, says Elaine Smith, analyst with Nashville-based Equitable Securities.

"We've seen a lot of chains expanding rapidly. In addition, we also have seen growth in drug store sections of supermarkets and discount stores. Retailers have shifted territories to build a stronger market share. They realize that there are too many stores going after the consumer's dollar, and this is why we are seeing the consolidation," she says.

For example, part of the appeal for Big B's management when it purchased the Eckerd units in Alabama was to eliminate some of the competition that exists in that market.

Compounding all of this is the fact that it simply is more cost-effective to purchase a store that already exists rather than to build a new unit. That's why management at Wilsonville, Ore.-based PayLess Drug Stores Northwest, decided that the best way for the chain to expand was to purchase 24 units from Osco in October 1987 and two from Longs in January 1988.

At SupeRx in Phoenix, acquiring stores has been its primary source of growth since it began operating in April 1987. SupeRx used to be a division of Cincinnati-based Kroger. The supermarket chain divested this group, sold some stores to Rite Aid, and sold the remaining 48 units to SupeRx.

In November 1987, SupeRx purchased three Walgreens units in Alabama, and in March 1988 it purchased six Defender Drug stores and two stores from United Discount Drug in Arizona. SupeRx now operates a total of 61 stores in Alabama, Arizona and Georgia.

"Most of our growth has been through acquisition. One of the key advantages of acquiring, rather than building from scratch, is that the store already has an existing prescription file. Because the store has volume, the new owner can start generating profits immediately," says Tommy Thomas, vp-marketing for SupeRx.

Although the buying and selling of drug stores seems to be widespread among drug store retailers, some experts say that it is not an entirely new phenomenon.

Others, such as Revco's Markovitz, disagree. "I think that this is a trend, and that we will continue to see it happen more and more," he predicts.

It doesn't necessarily mean, however, that chains will buy just for the sake of buying, he says.

"Retailers are being very selective. When we look at a group of stores, we examine each store individually. We ask ourselves if it is a good location and if we would build a store there," says Markovitz. "We are also interested in opening a certain number of stores every year. Therefore, every location is an opportunity for us." ■

—Rhonda Razzano

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EXISTING VOLUME: ADVANTAGES INCLUDE GENERATING PROFIT IMMEDIATELY FOLLOWING ACQUISITION

SURVEY SHOWS INCREASE IN 1989 MIS BUDGETS

POLL OF RETAILERS REPORTS INCREASE IN POS SHARE OF CAPITAL EXPENDITURES

Many retail operations budgets might get slashed next year, but not the Management Information Systems (MIS) capital budget. A majority of retail chains are planning for a gain in 1989.

Point-of-sale equipment (especially programmable cash registers and microcomputers) are slated for increased expenditures.

These are some of the conclusions of the first *Chain Store Age Executive* Retail Technology Census, an exclusive survey of retail Management Information Systems professionals.

The major reasons for increases in MIS capital budgets in an era elsewhere characterized by austerity: "We expect information technology will give us a competitive edge by reducing labor costs, increasing productivity and providing better and more timely information," sums up one convenience store MIS director.

That is a heady goal, and one repeated frequently by the information systems professionals participating in the Retail Technology Census.

In particular, Universal Product Code (UPC) scanning at point-of-sale appears as one of the continuing factors driving up MIS capital outlays, according to the poll.

The purpose of the survey, conducted in late June, was to gauge the level and direction of MIS capital spending for next year.

Chain Store Age Executive mailed questionnaires to more than 600 retail MIS executives, evenly divided among the 100 biggest companies in each of six retail categories: drug stores, supermarkets, home centers, discount stores, department stores and specialty stores. All respondents were promised complete anonymity.

About 7% of the questionnaires were returned by the survey cut-off date. Twenty-five percent of the responding retailers work for specialty stores, 20% are at department stores, 18% each at drug and discount stores, 13% at home centers and 10% from supermarkets.

Chains responding to the poll represent retail sales of over $21.9 billion. The smallest will ring up sales of $30 million this year. The largest will see its sales top $4.5 billion.

Next year, the combined MIS capital outlays for all the retail companies in the survey will exceed a quarter-billion dollars.

Big or small, a common theme runs throughout the survey responses. MIS capital budgets will be upped next year. Fifty-five percent of the Information Systems professionals report that their outlays will increase in 1989. Another 25% say that budgets will stay the same next year. Only 19% predict a spending downturn. Those few who cite reduced spending often mention unusually large expenditures this year.

POS SYSTEMS: GETTING TOP PRIORITY IN 1989 BUDGETS

Why the upturn in a cost-cutting environment? Growth is one answer. "We are a growing chain, and one of the ways we can grow efficiently is through automated systems," says a discount store retailer.

In addition, Management Information Systems are increasingly viewed by top management as an investment with a quick payback.

"The rate of return from cost savings offers potential exceeding other capital expenditures under consideration," responds one drug store retailer.

"We want to take advantage of technology to be more productive and reduce overall company costs," says a supermarket operator. (Though he notes wryly, "MIS incurs the cost and user departments receive the benefits.")

"The MIS budget will increase," says one specialty retailer, "due to rapid growth and a high level of innovation related to in-store and merchandising systems."

On the average, retailers in the poll report that MIS capital outlays will total 1.05% of sales in 1989. (For comparison, a similar study published a year ago by New York-based consultant Arthur Young found that MIS spending at retail companies in 1986 totaled 0.94% of sales. In 1985 the number was 0.88%)

What will retailers actually buy next year? Point-of-sale systems, say Information Systems professionals in the survey, will get top priority in 1989. Of the six potential areas of spending in the poll, POS is the only

Current and projected use of POS hardware

	% already use	% expect to add
Electronic cash registers	60.5%	25.0%
Programmable cash registers	63.2	55.3
Hand-held terminals	42.1	39.5
Micro/PCs with cash drawers	18.4	29.0
Mechanical cash registers	13.2	2.6

Source: *Chain Store Age Executive research*

MIS capital budget breakdown

	1988 %	1989 %
Hardware	27.6%	22.5%
POS devices	18.3	23.9
In-store systems	13.0	11.0
Software	18.3	12.3
End-user microcomputers	7.8	8.1
Warehousing/distribution systems	5.6	4.6
Other	9.4	17.6
Total	100.0	100.0

Source: *Chain Store Age Executive* research

one that will get an increased part of the MIS capital budget next year.

POS systems account for 18.3% of information systems capital outlays in the current budget, but will take 23.9% of next year's budget, say the retailers.

In particular, more than half (55.3%) of the MIS executives in the survey say that they expect to add programmable cash registers in 1989.

Another 39.5% plan to add handheld terminals. Only 2.6% say that they will buy mechanical cash registers.

The big gainer, however, will be microcomputers with cash drawers. Though only 18.4% of retailers in the Retail Technology Census report that they currently are using micros with cash drawers, 29% report that they expect to add PCs in 1989.

Micro PCs with cash drawers will be most prevalent in specialty stores, the survey indicates. In environments that require high levels of service and information, PCs look like the answer to many specialty retailers in the poll.

The overall gain in POS spending continues a trend of several years standing. An even greater commitment to UPC scanning at point-of-sale is driving the market.

"We will be spending more for hardware and software to meet needs for UPC scanning at POS," says one discount store information systems executive. "We'll be 100% scanning by the end of 1988," he notes.

Citing a "drastic need for automated data capture in stores," one specialty store retailer adds that his chain's emphasis on POS is part of the store's first Information Systems "clean up" in 12-15 years.

Other retailers mention the need to update systems to coordinate a conversion to Electronic Data Interchange and Quick Response.

"We want to be a leader in EDI, Quick Response, PLU and customer service," says one department store MIS executive.

Says another department store retailer: "We are looking at investment for POS data collection to sku, color, size and EDI."

More than half of the retailers in the poll say that they expect to have Electronic Data Interchange up and running within the next year and a half. One-fourth already are using EDI. Another 10% are testing a pilot project now (*see accompanying story*).

With more retailer companies opting for reduced merchandising staffs and more centralized decision-making, EDI has become a critical priority for some.

"EDI will be a particularly strategic system for us due to our centralized management style and need for fast flow of information back and forth to outside sources," says a discount store Information Systems executive.

Still, the biggest part of MIS capital outlays next year will go to hardware. Though hardware once again is taking the biggest overall bite out of the budget, the bite is getting smaller.

Information Systems professionals in the Retail Technology Census report that 22.5% of next year's capital budget will go to hardware. This compares to the 27.6% being spent this year, according to the survey.

Though spending for the biggest computers will slow, expect microcomputers to get a boost next year, say the retailers in the poll.

"We are going with higher PC dependency," explains one department store executive, "to supplement mainframe applications."

Software expenditures, however, will slacken. In 1989 MIS capital budgets, 12.3% of total expenditures will go to software, say the retailers. In this year's budget, software accounts for 18.3% of capital spending.

The reason for the reduced spending on software is simple enough. Most retail MIS departments have just completed major software projects and acquisitions.

In-store systems will get 11% next year (compared to 13%), while warehousing and distribution systems will get 4.6% (compared to 5.6%).

Telecommunications, in contrast, is one of a number of categories retailers say will get an increased part of the budget next year. Top of the shopping list are voice messaging, call attendant and WATS services.

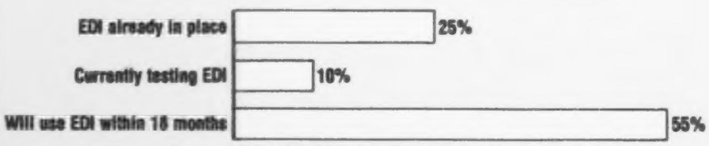
In the end, the next challenge for MIS executives might have more to do with people than with machines. "Retail companies must be more competitive when hiring new programmers and project leaders," warns a discount store retailer. It could be a tough challenge. ■

Majority of retailers to use EDI next year

Electronic Data Interchange (EDI) is finally becoming a reality. One-fourth of the retailers polled in the *Chain Store Age Executive* Retail Technology Census say that they already have an EDI system in place. Another 10% report that they now are testing EDI with a pilot project.

More significantly, 55% of the retail executives in the survey report that they expect to adopt EDI within the next year-and-one-half. Altogether, 63% of the MIS professionals say that they will implement EDI at some time.

Until recently, it appeared as if EDI would garner more talk than action. As recently as a year ago, fewer than 1 in 10 of the retailers were using EDI, and fewer than 1 in 20 had a pilot project under way.



Source: *Chain Store Age Executive* research

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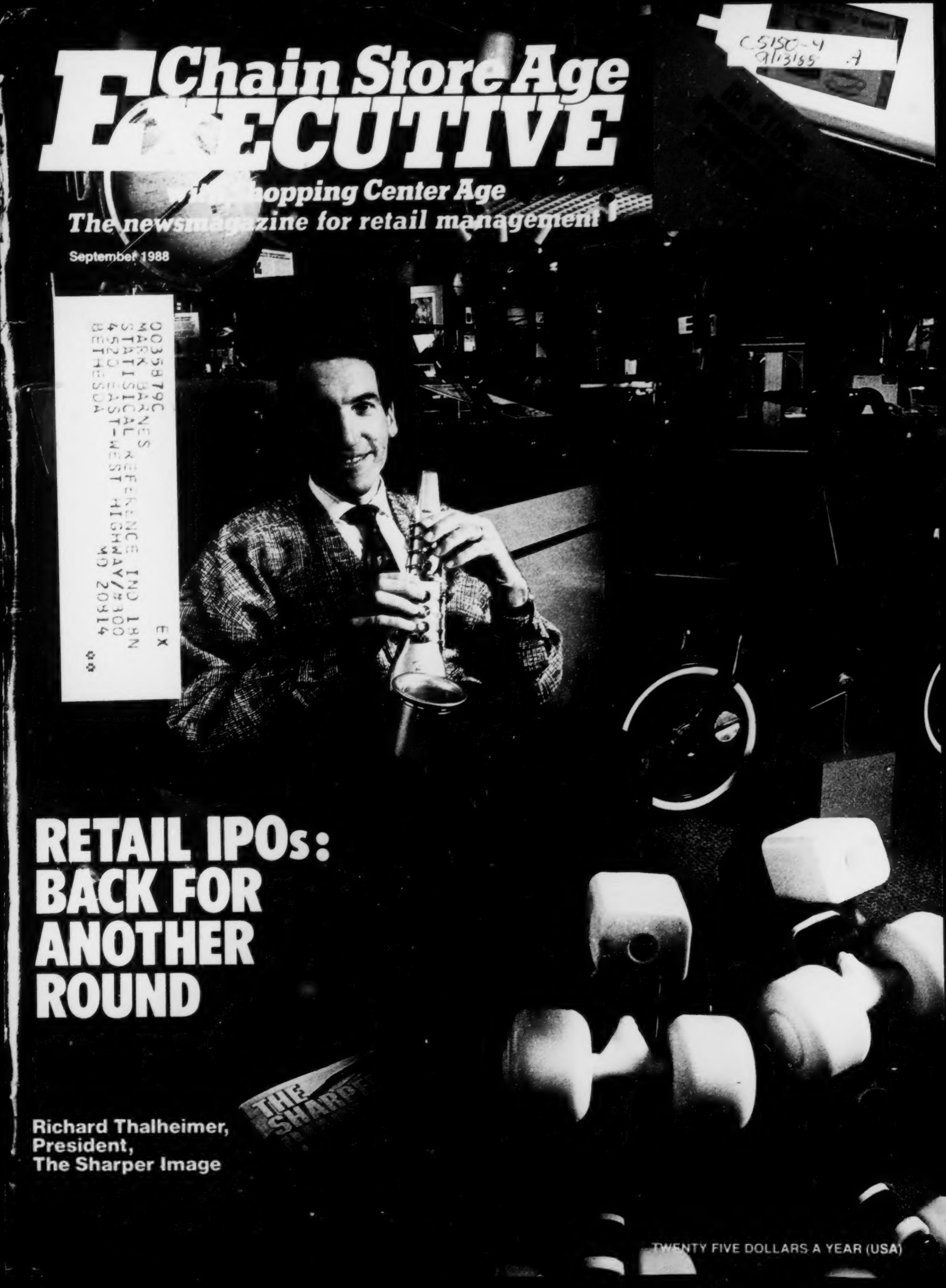

RETAIL IPOs: BACK FOR ANOTHER ROUND

Richard Thalheimer,
President,
The Sharper Image

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NEW DIRECTION FOR GROSSMAN'S

While its home center competitors were remerchandising and reconfiguring store layouts, Grossman's lay dormant within a bankrupt parent corporation. Last year, the Braintree, Mass.-based retailer went public and struck out on its own. Now the home center is playing a brisk game of catch-up with its better-financed rivals. *105*

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Richard Thalheimer took The Sharper Image public last year. In 1988 few others have followed his lead, but the market for IPOs is heating up. . *23*

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SHOPPING CENTER AGE

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SCHOOL STREET SQUARE

DEVELOPMENT PACE PICKS UP IN NORTHEAST AREA

New England and New York State are experiencing a boom in retail development. A special supplement explores what is happening. Meanwhile, throughout the country, the construction of mixed-use projects, with significant retail components, is clearly on the rise. . . . 29

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RETAIL IPOs REBOUND AFTER MARKET CRASH

AFTER SIX-MONTH DROUGHT, MARKET FOR FIRST-TIME PUBLIC ISSUES RETURNS

Richard Thalheimer hired a limousine for the day of Oct. 19, 1987. The Sharper Image president and ceo had decided the afternoon would be a good time for touring New Jersey to look for new store locations for his San Francisco-based retail and catalog company.

In between potential store-site stops, Thalheimer figured he and the executives with him would plan for the stock analyst presentation they expected to do in Boston the next day.

News heard over the radio interrupted those plans. As the afternoon wore on, the Dow Jones Industrial Average plummeted, taking its biggest single-day drop in history. Black Monday was upon them.

When the dust settled, the value of The Sharper Image had dropped from the $82 million the stock market had placed on the company when its initial public offering (IPO) was made in April 1987, to only $45 million.

"It was a blow to the ego," Thalheimer admits.

Yet at the end of Black Monday, Thalheimer still considered himself a lucky man. In the spring, the entrepreneurial chief executive had taken his company public against the advice of at least one well-respected investment banking firm. The banker had suggested that October would be a more advantageous time for a new stock issue.

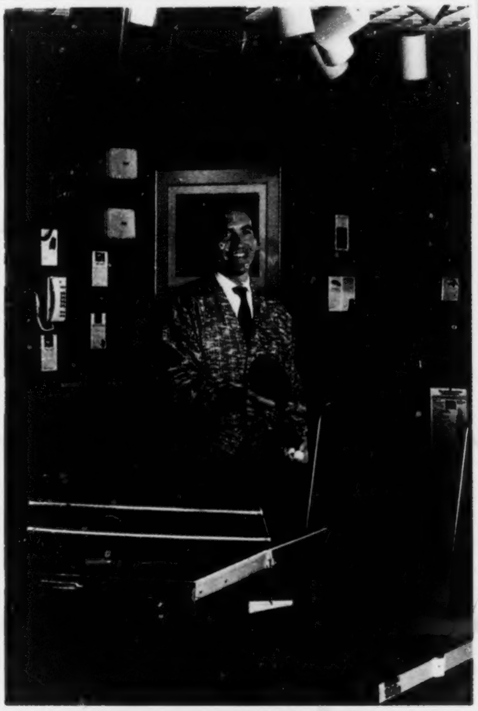
Thalheimer did not take that advice and instead went ahead with a $10 million offering in April.

"It turns out that it was a very lucky decision," Thalheimer says. "We probably could not have done it in the fall," he says.

Neither could any other company. In September 1987, a month before the stock market crash, there had been 62 initial public offerings, according to the *IPO Reporter*. In November 1987, the month after the crash, there were only six IPOs—none of them retail companies.

The dry spell for retail IPOs turned into a drought. For the first six months after the stock market crash, there was not a single retail issue brought to market.

According to Kidder, Peabody research, there were only four major capitalized retail IOs in the first half of 1988. At least two more were actively pending. This compares to 25 major retail IPOs for the full year of 1986 and 15 IPOs in all of ill-fated 1987.



THALHEIMER: IPO 'A MORE ATTRACTIVE ALTERNATIVE'

Retail public offerings, however, could be set for a comeback. In the last four months, the overall IPO market has picked up, lending strength to potential retail offerings as well.

In May, there were a total of 23 new issues, according to the *IPO Reporter*. In June, there were 26, in July there were 31. Among those offerings were the year's first successful retail IPOs, including Egghead Software (a computer software retailer), Babbages (another computer software chain), Casual Male (men's apparel) and Office Depot (an office supply superstore).

Also, Drug Emporium, a deep discount drug chain, recently began a public offering. ComputerLand, however, has delayed its IPO, citing adverse market conditions.

Other retail IPOs are in the wings. Alex. Brown & Sons analyst Fred Wintzer says that the Baltimore investment firm is advising a number of retail companies that are on the brink of public offerings.

"There is a huge backlog of retailers that want to go public," the analyst says.

Among them, says Wintzer, are five or six small, women's apparel chains. In addition, there are some big companies looking for the right opportunity to go public after leveraged buyouts.

"The major reason they're coming now is that the retail stocks have picked up meaningfully," Wintzer explains.

"Multiples have come up, stocks are up 25% or more from where they bottomed, and a number of companies find that the multiples are sufficient to justify going public," he says.

Price/earnings multiples for discount, department and fashion retailers through the second quarter are averaging 15. Food retailing stock P/E ratios at the end of the first half are averaging a hefty 17.

"What it's going to take to get more IPOs is a good environment for retail stocks in the general market," says Wintzer.

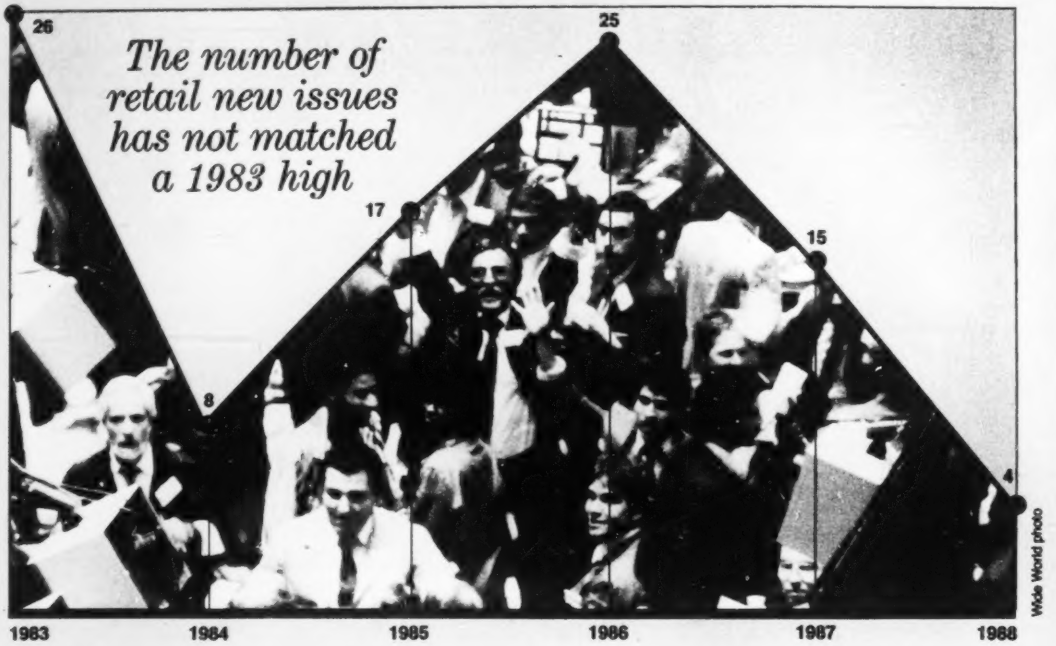
The health of that environment, the analyst thinks, will depend in great part on what happens in women's apparel retailing in the second half of this year.

If women's apparel comes out of its year-long slump, Wintzer says, then the outlook for all retail stocks—including new issues—will improve.

It is unlikely, however, that any emerging market for retail IPOs will match the headstrong days of the last five years. In addition, the number and quality of retail issues will differ significantly from the recent past, agree most observers.

"Last summer, almost anybody

RETAIL IPOs 1983-88



Source: Kidder, Peabody

and his brother could go public," says *IPO Reporter* executive editor Evan Guillemin.

Of the 15 major capitalized retail IPOs last year, according to Kidder, Peabody, most were companies returning from leveraged buyouts.

"Now it's definitely more selective. You have to have some kind of history and a good quality company," explains Guillemin.

"It's do-able now. The right companies can go public now," agrees Wintzer. "However, they've got to be top quality and high growth," he says.

Not everyone agrees. Kidder, Peabody retail trade research director Dan Barry thinks that the market for retail stocks and new issues will never go back to the "frothy days" of the last five years. In fact, Barry thinks the environment for retail stocks in general is set to weaken.

"We have a reversal of all the trends that positively affected the market for retail stocks in general—and retail IPOs in particular—five years ago," Barry says.

The analyst cites a still-weak dollar in international markets and upticks in both inflation and interest rates as negative factors affecting the market for retail stocks.

"We're predicting a recession," Barry says.

If retail companies cannot use public offerings to raise cash, where will they go? Though some predict that retailers will turn to commercial bankers, the answer is not always that easy.

For example, when Thalheimer was looking for cash to open new Sharper Image stores, he never seriously considered an alternative to a public offering.

"I guess we had different ways to finance it," Thalheimer says, "but going public was a more attractive alternative."

Besides, Thalheimer did not see going to commercial bankers to raise cash as a viable alternative.

"I've never found commercial bankers to be very receptive to entrepreneurial businesses. I'm sure there are some someplace who are, but I haven't seen them," he says.

Venture capital did not prove an alternative for The Sharper Image, either. Thalheimer says that venture capitalists did not value the company as high as its public offering ultimately did. Thalheimer expects that other companies looking to raise large amounts of cash will discover the same problem in searching out venture capital.

Had The Sharper Image not taken the public offering route, it is unlikely that it could have started on its current plan to open 200 stores nationwide. Even in the uncertain current environment, Thalheimer lists a second stock offering as the best route for his company to raise additional funds if it needed to.

If many retailers get cut off from easy sources of cash available through public offerings, say some industry watchers, the mammoth expansion in the number of new retail companies and new store sites that characterized the 1980s could grind to a halt in the 1990s. (Others are quick to point out, however, that in many cases venture capital funds may still fill the void).

In addition, a reduced market for retail issues could mean that companies that underwent leveraged buyouts will have trouble returning to the public market.

"Our intention always was to return to the public market," says Hills Department Stores chairman Stephen A. Goldberger. Hills made a public offering July 1987. Had Goldberger waited another three months, however, Hills would not have been able to follow that strategy.

If the IPO environment does not change, R.H. Macy could face that same problem. Before its bid for Federated Department Stores and subsequent acquisition of I. Magnin and Bullock's, many had predicted that Macy would look to re-enter the public market in 1989.

Though Macy management remains mum, it now is unlikely that the company will seek to return to the public market that quickly.

Among Macy's biggest obstacles are the additional debt it incurred to get the former Federated divisions and the resulting losses it is posting this year. It is equally unlikely, however, that the New York-based department store company will seek to stay private for the long term.

Nor is Macy the only company affected. Both Safeway, the food retailer, and Eckerd Drug are additional candidates for return from leveraged buyouts back into the public arena.

The question is: What kind of market will the companies face if they decide to go public again?

Whatever the short term outlook for retail new issues, the consensus is that those like Macy that are both willing and able to wait, the market will come back—eventually.

"It will happen," says Alex. Brown analyst Wintzer. "Ours is a feast or famine business." ■

—Rick Gallagher

RETAIL IPOs: HOW THEY'VE FARED

DESIGNS
exclusively Levi Strauss & Co.

Ask Richard Thalheimer why The Sharper Image went public in 1987, and the answer the president and ceo of the San Francisco retail and catalog chain gives is simple enough: "We needed the money."

The Sharper Image needed the $10 million it raised from its IPO to expand the number of retail stores the catalog company operates. (On the average, the chain spends between $300,000 and $500,000 to open a new unit.)

Since its IPO in April 1987, The Sharper Image has added 21 locations, growing from 28 last year to 49 a year after its first stock issue.

Ultimately, Thalheimer plans to operate up to 200 stores nationwide. If necessary, he says he will return to the public market to raise the cash to open them.

Nor is The Sharper Image alone. Most retail companies that entered the public arena last year used the cash they raised to open more stores.

Chestnut Hill, Mass.-headquartered Designs, a specialty retailer of Levi Strauss apparel that also went public in 1987, added 17 stores last year and will add another 16-20 stores in the current fiscal year, bringing its total to more than 60.

Canton, Mass.-based Hills Department Stores, meanwhile, went public in July 1987 after a leveraged buyout two years earlier. In 1987 the discount store chain added 17 stores. This year, Hills will add another 16.

Even with all the store building, the IPOs continue to outperform industry averages. The Sharper Image's earnings growth since 1982 is averaging 250% annually. Hills' five-year profit rate stands at over 11% annually. Designs' profits grew by almost half last year.

Retail IPOs as a group, however, seem a less than fetching investment for their shareholders. Though the 91 retail IPOs issued since 1983 have outperformed the Value Line Index (up 38% in five years for the retail IPO stocks, compared to 31% for the Value Line Index), the retail companies posted bigger losses than the market as a whole in 1987.

That might change. This year, the 91 retail IPOs once again are outperforming the broader market.

PRIVATE LABEL CREDIT: CAN INCENTIVES HELP?

CALIFORNIA STUDY SHOWS MORE USE OF BANK CARDS THAN STORE CARDS

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PLASTIC MONEY: AVERAGE CONSUMERS CARRY 6 CARDS

The role of the private label card has changed, says Greg Bjorndahl, partner in The West Coast Group, an Irvine, Calif.-based strategic marketing firm, which helps companies build upon the equities in their products and organizations.

According to a recently completed study on credit card use in California, traditional department stores "must rethink their store cards" to encourage customers to sign up, carry, and use them. Bjorndahl believes many of the California study's results—dealing with types of card ownership, wallet penetration, card visibility, interchangeability and selection and use of various cards—apply nationwide.

"The department store card is the least carried in the wallet," he says, suggesting that its traditional function of "baiting impulse purchases is going away."

In rethinking the store card, perhaps retailers should consider offering incentives packages as general (bank) cards do, observes Bjorndahl, a former senior vp at Security Pacific Bank in Los Angeles.

Historically, store cards have not offered incentives, but Bjorndahl sees them as a "tremendous opportunity" for retailers who provide private label cards.

The time to seize this opportunity may be particularly ripe. Despite recent trends to consolidate overall debt, California credit card users are looking to get even more cards, according to the study.

While California consumers already carry an average of six credit cards, they express a desire to carry still one more piece of plastic.

In addition, the financial service and retail industry should be aware that California consumers are acquiring new credit cards, compared to consolidating them, at a 4 to 1 ratio, observes Bjorndahl.

Furthermore, the study says that 10% of the respondents are canceling cards, while another 10% anticipate doing so. But consumers are replacing canceled cards with another, depending on the consumer niche (attributes of a cardholder).

One type of card most substituted is the department store card, despite the study's claim that it is the least carried in the wallet. Bjorndahl attributes this inconsistency to this "business of niches."

The study also reveals that one in four people surveyed have more than one wallet for their cards, while one third say they keep their cards in locations other than their wallets.

So in examining the types of incentives to offer which will encourage consumers to carry a particular card in their wallets in an effort to obtain a greater share of the growing "plastic money" market, he suggests credit card vendors and retailers pay close attention to the niches of people in the process of card acquisition and consolidation.

The West Coast Group study "found definite niches for the department store category," says Bjorndahl.

"The attributes of a Sears cardholder differ from those of a J. C. Penney or Saks or any other major player," he notes.

Moreover, a store's private label card must compete with other store cards on a different level than Visa and MasterCard compete because the bank cards are general purpose ones, while the private label cards offer only

B. ALTMAN BOASTS CO-OP PROGRAM WITH AMERICAN EXPRESS

California retailers are not alone in rethinking the relationship between bank credit cards and private label store cards. According to Jack Schultz, president and ceo of New York-based B. Altman, if the store substantially increases its business with a bank card, he can accept not gaining any business with the store's private label card.

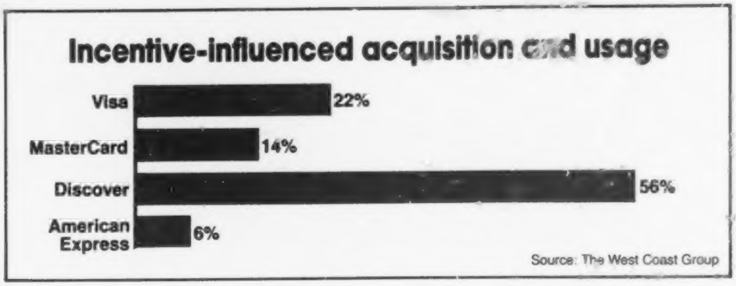
"What difference does it make?" he asks. "I'll spend 1% of sales any day to increase my [American Express charge] business 24%," says Schultz, pointing to the card's increased charge volume at B. Altman during 1987's holiday season, over the previous year's season.

The sales gain was especially sweet because it came at a time when retail analysts expected consumers to be cautious due to the October collapse of the stock market.

But the New York retailer knew that it could broaden the store's existing customer base beyond its house card clientele by developing a marketing program together with American Express, explains a spokesman for the card.

The program encompassed point-of-sale materials and television and newspaper advertising, which reminded customers that the American Express card is welcomed by the store.

The success of American Express' cooperative concept, says Greg Bjorndahl, partner in The West Coast Group, an Irvine, Calif.-based strategic marketing firm, caused Visa and MasterCard to follow on its competitor's heels with similar cooperative advertising strategies in an effort to sign up the 100 top department stores.


Incentive-influenced acquisition and usage

Source: The West Coast Group

a specific place to shop, according to Bjorndahl.

Nevertheless, he believes retailers structuring private label card programs can learn something from bank card programs.

"We see national and incentive card acquisitions as a major trend in the credit card industry, both at state and national levels. The results of our research show that California consumers are predominantly acquiring cards from out of state institutions [banks], especially from those who offer incentive packages, such as airline mileage, cash rebates or specialized services," he says.

The study states 53% of the respondents own Visa cards, and 25% of Visa's market share was influenced by the incentive package. Fifteen percent of the total 32% market share for MasterCard was influenced by incentives, while 48% of the Discover card's 13% market share was influenced by the card's unique cash rebate program.

The results of the study also indicate that Visa cards are three times more likely to have been recently acquired over MasterCard, and those cards are not being issued from local banks.

According to Terry Scully, credit director for Hayward, Calif.-based Mervyn's, "As the bank card industry becomes more aggressive" with inducements, "we need to be more aggressive" with the store card strategy.

In fact, Scully says, "I don't necessarily disagree" with Bjorndahl's philosophy on offering private label card incentives.

One inducement that Mervyn's recently instituted is a "15% coupon" offering with the acquisition of a Mervyn's card, explains Scully. The coupon entitles a customer to a 15% discount on items purchased during a single transaction.

According to Scully, the California apparel retailer has seen an increase in Mervyn's store card sales, compared to last year. He boasts that the coupon inducement is a "big piece" of the increase.

But Denny Kerr, director of marketing for Dallas-based J. C. Penney Credit Services, does not buy Bjorndahl's point that private label cards should offer incentives. Bank cards need to offer incentives as an inducement because all the cards have the same purchasing power, he says.

Private label cards, however, present a distinct "affinity" between the merchant and consumer, says Kerr. The store card offering is intended for consumers interested in what the card's mailings provide in store merchandise and sales.

"That, however, is the conventional view of the private label card with its customer," argues Bjorndahl. "The study results tend to refute that view," he adds, "as more cards fight for shelf space in the wallet."

But Kerr says, "I know we are not losing on the private label side," in terms of the number of cards issued and their active use the first half of this year, compared to the same time period last year.

According to Jack McCarley, vp-public affairs for Los Angeles-based Bullock's, the concept of offering incentives with private label cards is "interesting." The concept is the type of thing that would make a difference at point-of-sale, he says. In fact, "It's something that should be looked at," adds McCarley, and "if it seems feasible, we will."

But in his opinion, right now the customer would prefer more lenient credit terms, such as deferred credit and 90-day free credit on major purchases.

Currently, California is working on deregulating its credit market and close to passing such legislation, notes McCarley. "Then we can use credit as a merchandising tool, rather than be hamstrung by official rate limits," he says.

If California is a leading market indicator, as Bjorndahl claims, retailers and credit card vendors need to keep on the pulse of consumer's "plastic money" appetite.

If retailers are to begin rethinking their store cards, says Bjorndahl, perhaps they should also follow on the heels of bank cards and begin serving up incentive packages. ■

CONSUMERS RATE DEBIT CARDS 'MOST IMPORTANT'

The bank card piquing the most curiosity from retailers is not Visa or MasterCard, but the Automated Teller Machine (ATM) card, according to The West Coast Group study of California credit card use.

In the last five years, the study says, the ATM card (or debit card) is the one most widely held among consumers. Seventy percent of the study's respondents have one, and half of them say it is their single most important card.

Maybe now is the time that more retailers accept the ATM card at point-of-sale, says Greg Bjorndahl, partner at The West Coast Group, Irvine, Calif. In California at least, there already are a number of programs where retailers are marketing this offer cooperatively with banks (*Chain Store Age Executive*, May 1988).

Leading retailers are grocery chains, followed by convenience chains, gasoline chains and department stores, observes Bjorndahl. Department stores are last because of reduced number of visits by consumers, compared to other retail categories.

According to J. C. Penney Credit Services marketing director Denny Kerr, "More retailers are looking at the idea" of accepting the ATM card at point-of-sale. Though J. C. Penney is "keeping abreast" of it, the company is not actively pursuing the idea.

Kerr says that department stores are slower to move with the ATM cards because they already have several payment options established. Grocery chains, however, have not accepted credit cards, so are eager to establish some type of payment option like ATM.

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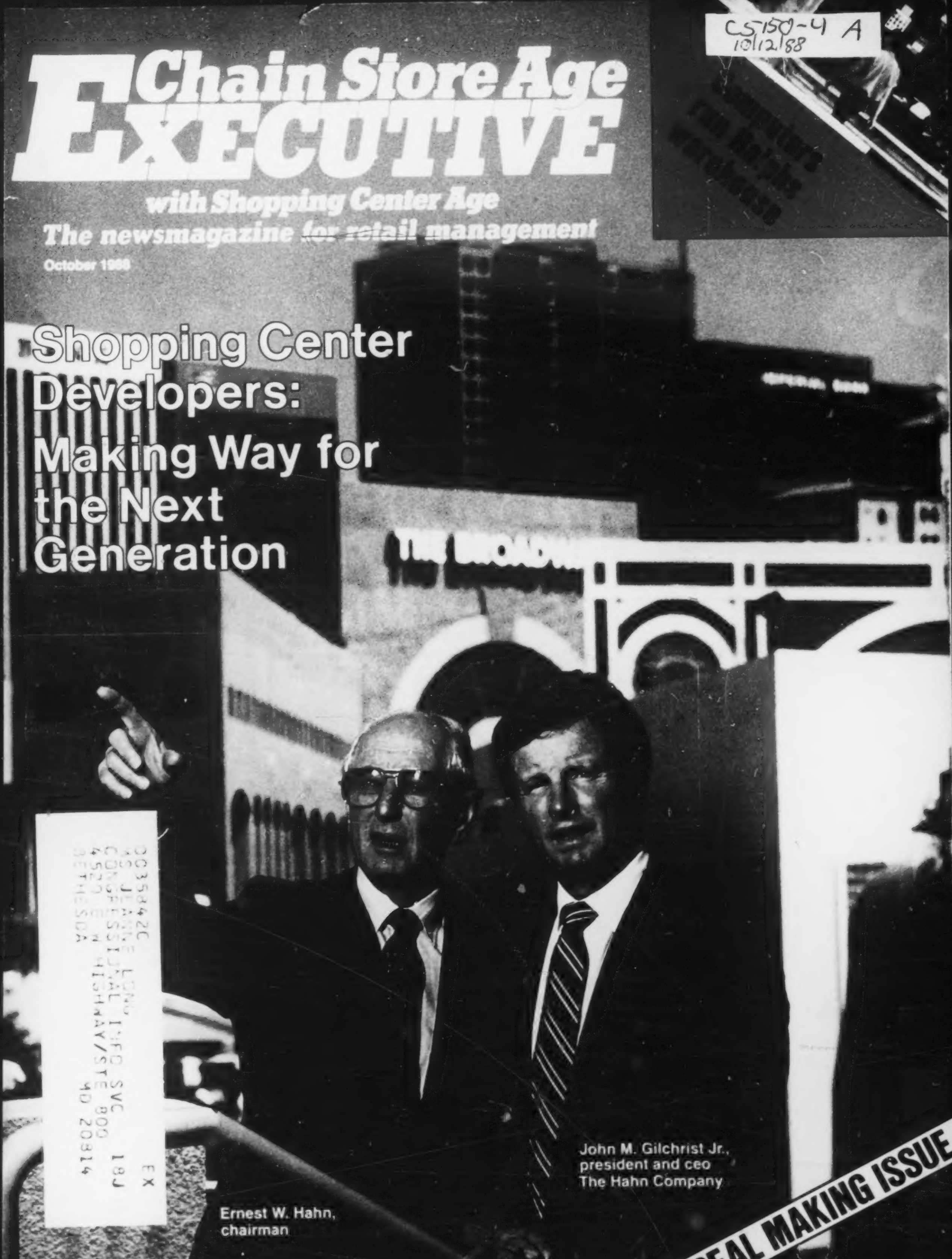

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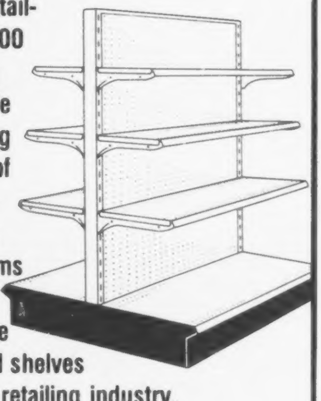

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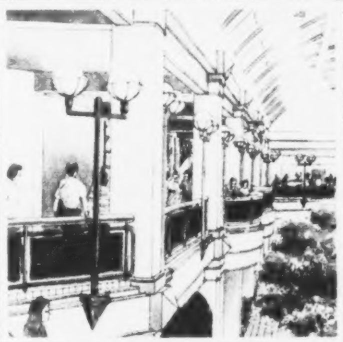

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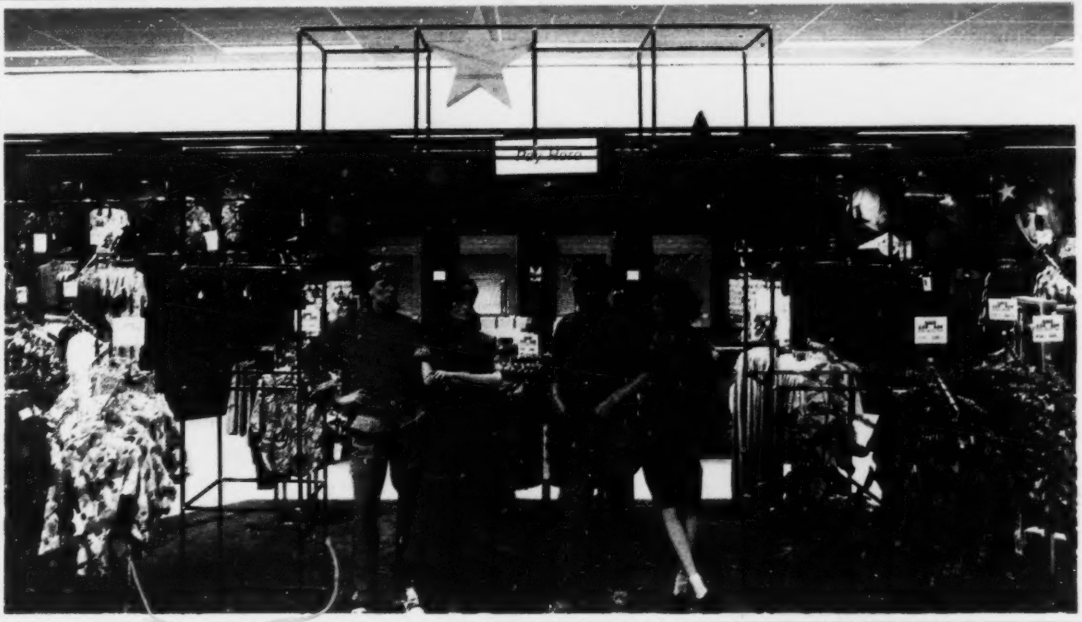

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RETAILER POLL: LABOR CONCERNS RISING

COMPETITION, CUSTOMER SERVICE TOP LIST OF ISSUES IN TOUCHE ROSS SURVEY

What issues do retailers rank as the most important ones facing them now and in the future? That's a question the management consulting and accounting firm of Touche Ross set out to answer by conducting a major retail opinion survey in late May of this year.

It's no surprise that the No. 1 concern expressed by retailers is how to deal with increased competition. More surprising is the second place ranking they give to customer service, closely interrelated with the labor shortage, ranked No. 3.

"This demonstrates that the long-recognized labor problem has become an exacerbated reality," says Cynthia Cohen, a management consulting partner of New York City-based TRADE. (TRADE is a newly-formed group to service the needs of the retail industry. The acronym stands for Touche Ross Retail, Apparel and Distribution Enterprises).

Other major concerns expressed by the retailers participating in this survey, in descending order, include the following: rise of non-store retailing, the falling dollar, mergers and acquisitions and import quotas.

All the results of this survey are being published for the first time in this issue of *Chain Store Age Executive*. The survey was conducted by Touche Ross' Retail Services Group. Most of what is presented here was prepared by members of that group.

Approximately 370 retailers took part in this opinion poll. They represent department stores, specialty soft goods retailers, specialty hard goods operations, mail order houses and off-price stores. The participants come from 35 states and represent retailing businesses with annual sales volumes ranging from $10 million to $1 billion.

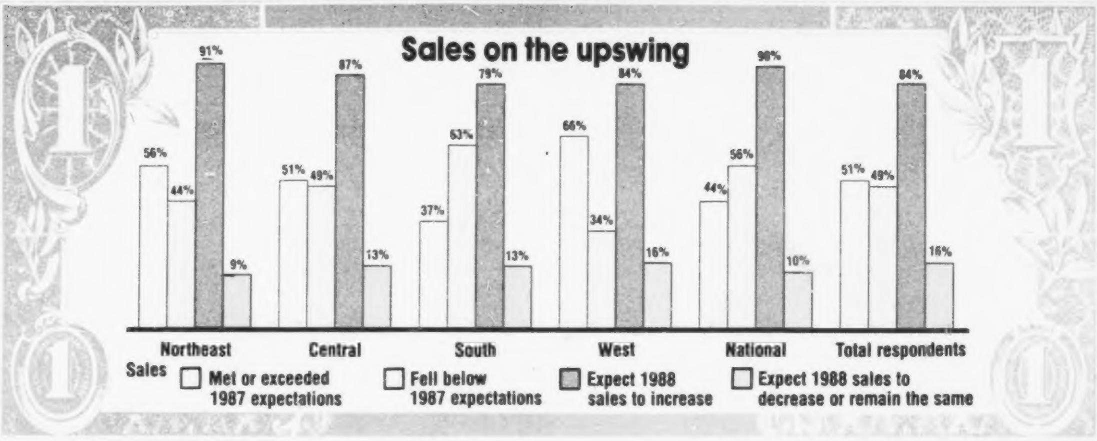
Ninety-six percent of total respondents believe that obtaining experienced, reliable sales personnel today is either a critical problem (say 51%) or somewhat of a problem (45%).

Looking at the situation by regions, retailers with stores in the Northeast are most concerned, with 82% of this group saying they consider hiring experienced or reliable personnel a critical problem. The situation is even more severe in Massachusetts, where the percentage of such retailers is 93%.

Conversely, retailers from the nation's central region are most likely to describe obtaining qualified sales help as "only somewhat" of a problem (according to 62%). However, 37% do describe it as critical.

The regional differences make sense, notes Cohen, because in looking at unemployment statistics, "The respondents from regions where there are labor shortages tend to be those who consider the problem critical."

For example, in the Northeast the unemployment rate is only 3.9%; in Massachusetts it is even lower at



Sales on the upswing

Source: Touche Ross

3.2%. In comparison, the rate in the central region is 6.9%. *(For more detailed information, see accompanying charts.)*

Indeed, by geographic area, in general the more retailers call the issue critical in their region or state, the lower the unemployment rate compared to the U.S. national average at the end of 1987. The fact that the majority of respondents describe the situation as critical is "a reflection of the economic expansion that's been taking place since 1982," says Irwin Cohen, managing partner of TRADE.

Cynthia Cohen adds, "The increase in demand for service-oriented jobs is making hiring tougher for all types of retail operations."

The situation isn't expected to improve noticeably in the future. Eighty-eight percent of the total respondents believe that difficulties in obtaining experienced or reliable sales personnel will affect customer service over the next five years.

Harvey Braun, chairman of the Retail Services Group, points out that the "birth dirth" of the 1960s and 1970s is adding to the problem. "This means that the available work force began to shrink nationwide in 1986—and will continue to shrink for five more years or so."

Retailers traditionally have turned to part-time employees to meet their employment needs. But it's that pool of labor that will be most affected by Braun's "birth dirth." Nationwide, teenagers accounted for nearly one-quarter of part-time retail employees in 1986. However, the number of teens entering the work force is projected to decline drastically between 1986 and 1992.

"Given the shortage of young people entering the work force, the incredible competition retailers must deal with, plus the competition for labor from other sectors of the service industry, retail executives are going to be dealing with terribly complex issues like work incentives and benefits planning while still turning a profit—and while looking for other alternatives," says Braun.

To try to fill in some of this slack, one solution retailers are trying for both part- and full-time sales personnel is the hiring of retirees. Twenty-four percent of the survey respondents say they have a program now in place; another 16% say they have a plan for hiring retired people.

By total annual sales, the larger the company, the more respondents say they have a retiree sales personnel program in place: 41% of retailers from companies with $1 billion or more in sales report such a program now in operation. Just 17% of the responses from companies with annual sales of $10 million to $49 million say they currently have such a program.

Labor is far from the only problem these retailers are having to deal with, however. Not only are they worried about their ability to provide their customers with adequate in-store service, but they are faced with increased pressure from non-store retailing. That's why many of them are getting in on the action.

When respondents from mail-order operations are excluded from the survey sample, 25% of the other respondents say that at least some percentage of their sales result from catalogs. In addition, approximately 70% to 75% of the total respondents are forecasting that sales from their catalogs will increase in the next decade.

It's not just catalogs, though, that retailers will turn to to stimulate sales (and to make up for that lack of qualified sales personnel). Electronic retailing, including cable advertising channels, home computer shopping services, and other forms now being experimented with, will be a major factor in stimulating their companies' sales growth over the next five years, according to 61% of the total respondents.

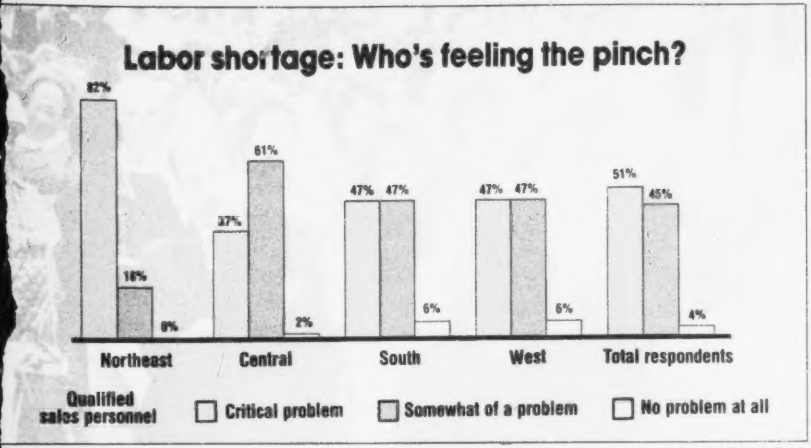
Despite efforts to the contrary, it appears that a large percentage of what will be sold through these new media, as well as within the stores themselves, will continue to be imported goods.

Nearly three-quarters of the respondents say they imported at least 10% of the goods sold in their stores during the past year. Five years ago, only two-thirds of the respondents say they were importing this large a percentage of their merchandise.

In addition, 30% of the retailers expect the percentage of imported merchandise sold in their stores to increase during the next 12 months.

In conducting its survey, Touche Ross was particularly concerned with trying to answer the question "Is the recent 'Buy American' campaign working within the types of retail operations surveyed?"

As part of this effort, respondents were asked to rank the five imported goods in their stores which account for the most sales. Following is a list of their responses: 1. women's apparel;


Labor shortage: Who's feeling the pinch?

Source: Touche Ross

2. men's apparel; 3. electronics; 4. children's apparel; 5. shoes/leather goods.

They were also asked to rank the five products which they think the U.S. produces better than any other country. Their responses: 1. food; 2. furniture; 3. men's apparel; 4. housewares/appliances; 5. women's apparel tied with cosmetics/perfumes.

Touche Ross executives admit that unfortunately the survey did not include questions concerning whether the items they consider produced best in America contribute significantly to their sales revenues.

Thus, the only conclusion it's possible to draw is that imports are still big obstacles to upping sales of women's and children's apparel, electronics, and shoes and leather goods produced by American manufacturers.

Foreign nations aren't making an impact only in terms of merchandise, though. According to 77% of the respondents, a significant number of future retail acquisitions will be made by foreign companies.

"Retail stores are the last bastion of foreign investors," Cynthia Cohen observes. "Once they were considered a risky investment. Now, with foreign currency stronger against the dollar, the foreigners are more confident."

At least for the retailers participating in this survey, this doesn't appear to be a particularly ominous threat. The majority, 56%, are *not* in favor of legislation to limit the acquisition of U.S. retail operations by foreign concerns.

In general, too, 53% of the retailers expect merger and acquisition activity to increase over its present rate.

When asked specifically, "Do you expect your company to be involved in merger/acquisition activity in the next 12 to 18 months," the breakdown of retailers answering "yes" can be looked at as follows: affirmatives expressed by 28% of the department store group; 21% of specialty soft goods respondents; 36% of the specialty hard goods retailers; 40% of the off-pricers, and 44% of the mail order company executives. For total respondents, the percentage was 31%.

What none of these retailers say, though, is whether they expect to be bought, merged, or have their own companies do the buying.

Retailers also aren't too sanguine about their ability to accurately predict their own financial futures. That's because, in looking back at 1987, 49% of the total survey respon-

Retail employees: Where will they come from?

Region	State	Projected retail employment (000)[1] 1988	1995	Growth[1] 000	%	Unemployment rate %[2]	Labor quality rank (out of 48 states)[3]	% of respondents 'Sales Personnel Problems' 'Critical problem today'	'Will affect customer service over next five years'
Northeast	Massachusetts	562	558	− 4	− 0.7	3.2	23rd	93	100
	New York	1320	1389	69	5.2	4.9	28th	56	92
	New Jersey	656	743	87	13.3	4.0	27th	67	100
	Connecticut	304	328	24	7.9	3.3	1st	80	100
Subtotal NE Tri-State		2280	2460	180	7.9			61*	95*
Central	Illinois	925	914	− 11	− 1.2	7.4	35th	47	80
South	Georgia	506	560	54	10.7	5.5	48th	69	94
	Florida	1122	1278	156	13.9	6.3	46th	47	88
West	Texas	1464	1606	142	9.7	8.4	42nd	39	87
	California	2397	2744	347	14.5	5.8	44th	51	79
TOTAL		9256	10120	864	9.1				

1 Woods & Poole Economics, *CEDDS*, May 1987
2 U.S. Bureau of Labor Statistics, year end 1987
3 "Education Index by State," *Grant Thornton Manufacturing Climates Study*, July 1988
* Average weighted by number of respondents per state.

Source: Touche Ross

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CHAIN STORE AGE EXECUTIVE DELIVERS . . .

the news of the retail industry each and every month

dents report that their yearly sales fell either somewhat or far below expectations.

By type, the retailers who appear to have been particularly hard hit are department store operators. Sixty-one percent of these respondents say their sales didn't reach expected levels, with 17% reporting they fell "far" below expectations.

Specialty hard goods businesses did best, with 60% saying sales either met or exceeded expectations.

"The retail industry is aware of the need for better forecasting and planning techniques," says Irwin Cohen.

"While one test will be to see how well the retailers have forecast for 1988, a retail climate of such constant upheaval and change—out-of-store retailing, the rising price of imports because of the weakened dollar, climbing inflation, higher interest rates, an election year, changes in competition caused by mergers and acquisitions—requires extremely sophisticated economic forecasting techniques, combined with numerous industry variables, to create solid financial and sales planning models," he says.

The authors of the Touche Ross study are still optimistic overall about the future of the retail industry. They are gratified to see that retailers recognize many of the major problems facing them and are ready to do something to combat them.

For example, when it comes to participating in the growth of non-store retailing, retailers can fight back by sending out more catalogs, increasing other direct mail activities, creating mail-order departments or subsidiaries, and experimenting with electronic retailing as a major way to stimulate sales growth.

To better forecast their more immediate business fortunes, they can strive to pay greater attention to exterior factors and can use economic forecasts, as well as industry variables, to create more sophisticated planning models.

Last, when it comes to the all-important challenge of obtaining qualified sales personnel, there appears no doubt that retailers have to look at new sources of part-time labor such as retirees.

It is also imperative that they implement more comprehensive training programs for both new full-time and part-time employees so that an acceptable level of customer service can be maintained. ■

APPAREL SALES SET FOR A REBOUND

NEW MERCHANDISE, BETTER FOCUS COULD END INDUSTRY'S YEAR-LONG SLUMP

What caused the year-long slump in women's apparel sales? While pundits argue the question, many women already know the answer: Nothing fit.

"What really did it was that prices were very high, and quality was terrible," explains Carol Farmer, a New York-based consultant.

"Then women were saying, 'I don't like the way I look in these clothes. I have things in my closet that will work and that look better.' They rediscovered the contents of their own wardrobes," Farmer explains.

"The most common complaint," agrees Goldman Sachs analyst Joseph Ellis, "is that the majority of styles and 'fits' are simply not made for more mature tastes and figures."

Demographic statistics for years had warned of a shift to older age categories, but designers, manufacturers and retailers all have ignored the trend.

BANANA REPUBLIC: CHRISTMAS SEASON COULD TURN CHAIN AROUND

Baby-Boomer women, now fully into middle age, have been particularly ignored (*see related story, this issue*).

Why has the industry not read the trend correctly?

Farmer blames the apparel buyer's isolation from the customer. "The buyer, without being on the selling floor anymore, is a long way from customers," she explains.

"She is receiving only information on what is being sold," Farmer says, "and it doesn't tell you what could sell if it were being offered."

"The computer printouts don't tell you anything about what is really happening out in the world," she says.

"Most key players in the women's apparel industry—designers, manufacturers and retailers alike—operate intuitively, attempting to 'spot the new trend' and 'psych out' the customer's interests," explains Goldman Sachs analyst Ellis.

"Unlike marketers in industries such as household products and fashion goods, which, we suspect, most

Men's wear sales—1988

Percent increase/decrease compared to same months in 1987

	April					May					June				
Classification	West	Central	South	Northeast	National	West	Central	South	Northeast	National	West	Central	South	Northeast	National
All suits	2.6%	– 3.9%	– 7.5%	– 2.6%	– 2.4%	4.3%	11.6%	5.8%	3.9%	5.9%	15.6%	– 5.9%	15.1%	5.5%	7.3%
Sport coats	– 1.5	– 5.9	–11.6	– 6.5	– 5.0	–14.2	9.8	– 0.2	–12.6	– 8.1	0.7	–11.3	– 1.4	– 9.8	– 5.1
Dress slacks	– 2.6	– 7.5	– 3.4	2.1	– 1.9	– 8.5	– 7.6	– 7.3	– 5.8	– 5.8	– 4.9	– 7.9	– 0.2	– 0.2	– 3.4
Outerwear	9.5	9.9	26.3	– 4.9	7.8	0.7	20.8	27.3	–11.1	1.5	5.9	6.7	28.1	3.3	8.1
Leather jkts	– 8.5	27.8	–17.9	–20.5	–16.8	14.0	–14.7	–28.3	–39.6	7.8	–16.3	29.0	–22.2	–19.9	–10.6
Jackets	4.3	25.2	22.9	–22.2	16.4	16.6	–15.1	31.4	–42.9	– 3.5	19.3	–17.3	32.0	–15.6	0.2
Sweaters	6.5	– 5.7	27.2	– 8.0	1.3	12.4	– 1.1	– 6.6	13.0	9.5	11.2	2.5	1.0	– 0.3	6.6
Casual pants	– 5.9	20.3	10.4	–15.5	– 3.1	–14.8	– 5.6	– 6.6	–13.7	–12.6	–12.7	– 7.6	–10.5	–11.4	– 9.5
Jeans	15.4	15.9	– 2.3	4.1	8.9	– 4.6	6.7	1.1	– 7.1	– 2.4	– 8.9	7.2	– 7.4	– 1.7	2.4
Sport shirts	– 5.9	– 4.2	0.2	–14.0	– 6.6	– 6.3	3.8	–16.2	–11.8	– 7.5	2.5	5.6	–10.9	– 9.7	– 1.5
Dress shirts	7.6	– 4.6	–11.6	– 5.5	– 1.4	– 8.8	5.1	– 2.2	– 3.7	– 4.5	– 1.2	– 6.3	12.5	– 9.8	– 2.7
Knit shirts	– 4.1	–10.8	32.6	–14.4	– 2.4	– 8.9	3.9	–26.7	– 7.8	–10.9	– 8.8	– 6.4	– 8.3	3.1	– 5.4
Active sptswr	–10.8	14.4	5.3	– 4.9	– 6.3	0.3	5.2	– 9.6	–17.4	– 3.1	– 7.3	12.9	– 2.6	– 4.2	– 3.6
Hosiery	14.7	25.1	– 2.2	1.3	14.6	9.6	34.1	–10.2	14.0	8.8	4.8	16.6	– 8.3	– 7.7	2.6
Neckwear	18.6	11.4	– 2.9	11.9	11.5	8.4	8.8	6.4	– 2.7	5.4	9.9	7.5	7.5	7.9	8.7
Belts	20.8	28.5	12.4	11.1	20.7	6.4	29.1	–33.9	20.4	6.1	7.7	16.3	0.9	13.0	9.6
Underwear	10.8	11.3	11.4	–10.5	8.0	9.3	7.7	–13.3	– 6.2	2.4	8.7	11.6	– 3.1	– 7.2	3.5
PJ's & robes	– 0.6	35.5	14.2	– 9.8	2.0	10.0	8.0	13.7	– 2.0	9.0	4.7	6.3	15.4	– 3.2	5.0
Accessories	6.0	15.7	1.1	– 3.3	3.3	9.8	21.5	1.2	– 5.1	5.2	18.1	7.7	12.4	– 1.9	7.5
Swimwear	–12.7	– 8.9	0.5	–21.9	– 3.3	8.0	10.7	–18.7	36.2	– 5.0	– 4.4	19.4	–10.1	–11.7	– 2.3
Total	0.1	0.7	– 1.5	– 4.9	– 1.4	4.5	6.3	– 4.5	– 4.2	– 2.8	0.1	– 2.5	2.1	– 2.2	– 0.7

Source: RMSA Retail Store Database

retailers view as slow-moving and somewhat academic in nature, women's apparel manufacturing and retailing companies spend little time or money on an empirical tracking of customer demographics or to determine specific customer merchandise preferences through exit interviews," says Ellis.

The result, says the analyst, are racks filled with garments that neither fit most women nor are appropriate to their more mature outlook, not to mention their more mature figures.

"We do not believe that the absence of 'hot new items' has been the problem over the past year," he says. "Indeed, the very problem seems to have been that last year's items were too 'hot.'"

The Gap, the San Francisco specialty chain whose profits took a much celebrated trip south, has confronted the size problem head-on. In both women's and men's apparel, the retailer now has added a "fit" dimension to more traditional jeans size and color considerations.

In women's apparel, The Gap now merchandises Second Shift (a tight fit), Boss (slim), First Class (long waisted) and Relax (an easy fit).

For men's, The Gap uses Navigator (slim), Pilot (tapered leg) and Mechanic (an easy fit).

The chain's new focus must be working. Through the first half, comparable-store sales at The Gap were up an estimated 15%.

Its Banana Republic division, however, probably posted a 10% decline in same-store results, reflecting the concept's difficulty in finding a longstanding fashion position.

As one industry wag put it, "How many of your friends want to dress up in jungle clothes?"

Even Banana Republic could get some relief, however, as new product is now moving into stores for the Christmas selling season.

Other chains, meanwhile, are taking profitable notice of demographic changes. Santa Monica, Calif.-based Motherhood, for example, noticed an increase in the nation's birthrate along with an increase the number of working women and came up with career apparel maternity wear (*see story this issue*).

Kids Collection, based in Tarzana, Calif., is targeting something unheard of only a few years ago—the high fashion juvenile customer (*see story this issue*).

Richmond, Va.-based S&K Famous Brands is experimenting with store design and advertising that encourages women to buy men's apparel for their husbands. The off-price men's apparel chain began the program when it realized the number of women shopping its stores (*see story this issue*).

Generally, the slump in apparel sales is finally beginning to show signs of turning around.

According to Riverside, Calif.-based Retail Merchandising Service Automation (RMSA), women's apparel sales decreased 7.4% in June, compared to an 8.1% drop in May and a 9.0% dip in April (*see chart*).

The biggest laggards, says RMSA, continue to be junior dresses (down 20.2% in June 1988 compared to June 1987), skirts (down 19.0%) and sweaters (down 15.2%).

The only gainers were jackets (up 14.2%), robes (up 11.3%), suede and leather coats (up 9.8%), jeans (up 8.5%) and novelty tops (up 4.2%).

Men's apparel, says the retail merchandising and consulting firm, remained fairly flat from April through June (*see chart*).

In the latest month, the biggest gainers in men's were belts (up 9.6%), neckwear (up 8.7%) and accessories (up 7.5%).

The weakest performers, according to RMSA, were leather jackets (down 10.6%), casual pants (down 9.5%) and knit shirts (down 5.4%). ■

Women's wear sales—1988

Percent increase/decrease compared to same months in 1987

	April					May					June				
Classification	**West**	**Central**	**South**	**North-east**	**National**	**West**	**Central**	**South**	**North-east**	**National**	**West**	**Central**	**South**	**North-east**	**National**
Missy dress	−7.9%	−12.5%	−3.5%	8.8%	−3.8%	−21.6%	0.9%	5.2%	−5.2%	−9.1%	−15.9%	−17.5%	0.2%	5.3%	−8.5%
Cktail dress	−16.9	−15.9	6.8	15.1	0.1	−7.4	−34.9	−4.9	−19.5	−11.1	−10.9	−21.9	9.2	10.2	−1.5
Jr. dresses	−15.4	15.0	−18.9	−24.5	−17.1	−31.8	−52.6	−10.2	−26.3	−29.4	−22.6	−31.1	−25.5	3.6	−20.2
Suits	−30.6	−32.8	−20.3	−4.9	−22.3	−21.1	21.5	3.7	−6.8	14.9	−3.2	−21.4	17.2	−8.1	−1.4
Coats	16.5	0.8	10.0	1.6	9.2	19.0	−34.8	32.5	−10.4	8.4	−2.7	−13.4	34.0	−17.3	−4.4
—All purp.	−14.8	21.2	−34.8	−20.1	−17.9	−18.2	12.5	8.5	−5.9	−1.7	−9.7	−23.2	−11.5	5.5	−12.5
—Suede, lthr	−28.2	19.5	−19.9	−23.6	−18.5	−17.4	−25.5	−18.9	−22.3	−17.4	−14.8	5.7	30.2	−9.9	9.8
Jackets	4.2	−23.3	25.3	−4.9	3.2	22.2	6.3	15.7	2.6	14.1	8.6	−1.2	33.7	25.7	14.2
Sweaters	−20.8	−14.0	−27.4	−30.5	−24.2	−26.3	−5.6	−20.4	−25.8	−21.3	−9.2	−21.3	−23.7	−7.4	−15.2
Novelty tops	−3.4	−8.7	11.7	−4.4	−0.8	−9.8	6.5	−8.5	−5.7	−6.7	−3.2	1.6	3.7	5.4	4.2
Blouses	−19.3	−21.3	−10.7	−9.1	−17.6	−4.9	−1.7	−12.9	−1.8	−8.5	−5.3	−10.1	−20.3	−3.7	−10.2
Skirts	−18.6	−31.8	−24.2	−27.3	−24.9	−14.9	1.2	−23.2	−22.3	−17.1	−15.6	−15.3	−27.0	−14.6	−19.0
Pants	−6.3	−12.0	−0.4	1.9	−3.4	−2.1	1.4	−6.3	−0.1	−2.5	−0.2	3.5	−6.7	4.6	−0.5
Pant/jumpsuit	−13.6	5.0	7.3	19.1	1.5	−21.5	29.2	−23.8	18.4	−3.8	−9.5	45.7	−12.5	14.1	−2.7
Coor. groups	−7.6	−19.1	−4.3	21.3	8.8	−14.2	−11.6	−4.0	−5.8	−8.7	−7.2	−7.7	−8.6	1.1	−7.3
Jeans	19.5	20.7	6.0	−18.7	5.8	15.6	−17.3	13.1	−20.3	−7.7	25.7	1.2	1.1	−3.4	8.5
Swimwear	−22.5	12.9	28.5	27.3	15.1	−6.4	−2.3	−11.6	−42.5	−10.8	−13.8	−6.9	−10.8	3.5	−10.4
Int. apparel	−12.5	−7.5	−7.3	−13.2	−10.2	−17.2	−17.7	1.8	2.6	−7.3	−3.1	−4.6	−9.5	−3.5	−5.7
Sleepwear	12.8	22.6	4.7	11.6	9.6	−5.8	−7.8	−15.3	−11.5	−12.2	10.7	5.1	−4.1	−8.2	−1.7
Robes	−15.2	8.5	1.2	−1.3	−9.7	−9.3	3.7	20.4	10.7	3.4	16.5	9.4	−8.2	15.0	11.3
Handbags	−10.4	−1.4	−13.8	3.2	−9.3	−11.7	−13.4	−21.7	6.0	−11.9	−17.1	21.7	13.9	15.9	−10.7
Active sptswr	−6.2	9.0	20.4	−12.6	−3.2	−14.5	9.4	32.3	−14.6	−6.9	−17.5	−5.5	8.1	−27.1	−13.3
Hosiery	−6.4	1.3	−2.8	10.5	−1.3	−10.9	5.1	−3.5	2.9	−3.6	−8.4	7.7	−11.2	9.8	−4.8
Jewelry	−10.0	8.3	−13.7	−9.4	−10.6	−8.5	−4.6	2.6	3.8	−2.9	−6.2	−9.5	3.6	−7.2	−11.3
Totals	−12.9	−13.5	−6.1	−3.9	−9.0	−12.2	−3.7	−4.2	−8.3	−8.1	−9.4	−8.8	−7.8	3.2	−7.4

Source: RMSA Retail Store Database